

103
THE U.S. WINE INDUSTRY AND ITS RELATIONSHIP
WITH THE U.S. DEPARTMENT OF AGRICULTURE

Y 4.G 74/7:W 72/2

The U.S. Wine Industry and its Rela...

HEARING
BEFORE THE
INFORMATION, JUSTICE, TRANSPORTATION,
AND AGRICULTURE SUBCOMMITTEE
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

AUGUST 24, 1993

Printed for the use of the Committee on Government Operations



JUN 30 1994

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THE U.S. WINE INDUSTRY AND ITS RELATIONSHIP WITH THE U.S. DEPARTMENT OF AGRICULTURE

TUESDAY, AUGUST 24, 1993

HOUSE OF REPRESENTATIVES,
INFORMATION, JUSTICE, TRANSPORTATION,
AND AGRICULTURE SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Rohnert Park, CA.

The subcommittee met, pursuant to notice, at 1:29 p.m. in Rohnert Park City Council Chambers, 6750 Commerce Boulevard, Rohnert Park, CA, Hon. Gary A. Condit (chairman of the subcommittee) presiding.

Present: Representatives Gary A. Condit and Lynn C. Woolsey.

Also present: Shannon Lahey, professional staff member; and Diane Major, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN CONDIT

Mr. CONDIT. Good afternoon. If we can all find a seat, we will start the hearing.

It is a pleasure to be here today. I appreciate Congresswoman Lynn Woolsey's extending the invitation to bring the subcommittee here for this hearing on the U.S. wine industry. Your Congressperson, Ms. Woolsey, has been a very active member of this subcommittee; and I can assure you that she has never missed an opportunity to question the USDA about issues which concern her agriculture constituency.

And we are delighted that she has extended the invitation to us today, and I will defer to her at this time for any opening statement she would like to make.

Ms. WOOLSEY. Well, thank you, Mr. Chairman.

I would like to welcome all of you here today for the first ever congressional hearing to be held on the wine industry in northern California. I want to thank Chairman Condit for agreeing to hold this important hearing. And it is an honor for me to be a member of his Government Operations Subcommittee on Information, Justice, Transportation, and Agriculture.

So now you know why I tried hard and lobbied to get on that subcommittee. It has been a pleasure working with the chairman, and it has been a pleasure putting this hearing together today, a hearing that in the future will benefit the wine industry.

I would also like to thank our witnesses who have agreed to take time out of their busy work schedules to be here with us today, to share their valuable insights on the role of USDA in the wine and winegrape industry. I look forward to hearing your testimony and to the discussion that will follow.

The wines of California are famous at home and abroad for their excellence. California's wines have played an important role in the significant growth that the wine industry has shown in the recent years. The U.S. share of the wine export market has increased substantially in the last decade. And, in addition, the amount of domestic wine consumption has doubled over the past two decades.

It is no surprise to anyone here that the majority of domestic wines consumed are from California. There is no doubt that the wine and winegrape industry plays a vital role in the economy of our State and our Nation and certainly the Sixth Congressional District.

I know that one of the reasons Sonoma and Marin has an unemployment rate far below the Nation's and the rest of California was because we have diversified agriculture and diversified employment here in our district. And the wine and agriculture industry plays a very important role in that diversity.

Wine is not only important to our economy. It is part of the fabric that makes up our Nation's tradition. Wine is used in many cultural and religious settings and has been part of Western civilization for over 5,000 years. It is unique among alcoholic beverages because alcohol is not the primary importance. It is the fruit that is used to make the wine that gives the beverage its identity.

However, despite the fact that the wine industry contributes significantly to our Nation's economy, and that wine is part of our Nation's meaningful tradition, not all is perfect for our Nation's winegrape growers and vintners.

That is why we are here today. Many of the grape growers in northern California are family farmers, and they are facing problems that are common to family farmers around the country, such as struggling economy, drought, and disease. Growers also experience problems that are particular to their situation because many growers are vintners as well. They are farmers and processors, a situation unique to grape growers. Vintners also experience their share of problems when it comes to exporting their product. Although California's wines are competitively priced and are of the highest quality, they suffer economic setbacks due to unfair trade barriers and other disadvantages. These problems are too important to be ignored.

I asked Chairman Condit to give me the opportunity to conduct a hearing on the wine industry in order to examine the difficulties the growers and vintners face as part of our Nation's agricultural foundation. The intent of the hearing is to examine the role that the U.S. Department of Agriculture, the USDA, has in helping to maintain an economically healthy and competitive wine and winegrape industry in the United States. We will also assess the effectiveness of those USDA programs utilized by the wine industry.

Finally, the hearing will examine ways in which the USDA could best assist the wine industry. Due to the extensive number of is-

sues affecting the wine industry and the limited time we have today, we have asked our distinguished witnesses to concentrate their testimony on the role of the USDA regarding a few key issues. Assistance in production of agricultural commodities used in wine, trade policies, the wine study authorized by the 1990 farm bill, and, finally, the establishment of a wine desk, a wine desk, so to speak, that would act as a coordinator and advocate for the wine industry within the USDA.

Before we hear our witnesses, I must mention that I regret that a very important friend of the wine community was unable to join us today. I am referring to State Senator Mike Thompson. Senator Thompson has been actively involved in many issues concerning the wine industry. He is the chair of the Senate Select Committee on California's Wine Industry and has sponsored numerous pieces of legislation for the good of the wine industry. He is highly respected by the California wine industry, and I look forward to working with him and others in Sacramento on issues of concern to our State's vintners and growers.

We will be hearing from two panels today. The first is made up of local California experts who are involved in the wine industry as either vintners, growers, researchers, or consumers.

The second panel will be representatives from the USDA. Due to the very limited time we have, each of our witnesses has kindly agreed to keep remarks under 5 minutes. All of our witnesses have written testimony of greater length that will be submitted as part of the hearing's permanent records.

I appreciate everybody being here today, and I now would like to yield to Chairman Condit.

[The prepared statement of Ms. Woolsey follows:]

NEWS FROM

Congresswoman

LYNN C. WOOLSEY

California, 6th District

FOR IMMEDIATE RELEASE:

August 24, 1993

FOR INFORMATION CONTACT:

Patrick Kowalczyk 707/795-1462

WOOLSEY CALLS ON USDA TO STEP UP EFFORTS TO ASSIST WINE INDUSTRY

ROHNERT PARK -- At the first ever federal hearing to be held in Northern California on the wine industry, Representative Lynn Woolsey (D-Petaluma) today called on the United States Department of Agriculture (USDA) to strengthen its programs which assist the wine industry.

"In order to maintain an economically healthy and competitive wine industry, the USDA must improve its programs which aid the industry," said Woolsey, who called the hearing. "The wine industry deserves the same level of attention, technical assistance, and marketing promotion which the USDA provides other agricultural products."

Local vintners and growers, scientists, and representatives of the USDA joined Woolsey and Rep. Gary Condit, Chairman of the Government Operations Subcommittee on Information, Justice, Transportation and Agriculture, in Rohnert Park to discuss the relationship of the wine industry and the USDA. The Subcommittee, of which Woolsey is a member, has oversight jurisdiction over the entire USDA.

With plans for the reorganization of the USDA pending, Woolsey called on the USDA to look into the possibility of creating a wine desk at the agency which would serve as an advocate and coordinator for the wine industry in the USDA. Woolsey also said she opposed plans to place the Soil Conservation Service (SCS) under the jurisdiction of the new "Farmer Services Administration."

"The effectiveness of the Soil Conservation Service would be greatly diminished under the jurisdiction of the new Farmer Services Administration," said Woolsey.

Noting that phylloxera is threatening to destroy thousands of acres of grape vines in Northern California, Woolsey urged the agency to increase funding for phylloxera research.

In order for the wine industry to continue to benefit from the market enhancement and expansion activities done through the agency's Marketing Promotion Program

-MORE-

(MPP), Woolsey requested that the USDA ensure that reductions in MPP's 1994 budget do not affect the amount of assistance received by wine industry.

"The wine industry should not suffer at the expense of large corporations which can afford to do their own research and advertising," said Woolsey.

Finally, Woolsey urged the USDA to make a Congressionally mandated study of the wine industry a priority in next year's research plans.

"Congress authorized a comprehensive study of the wine industry three years ago and no progress has yet been made," said Woolsey. "The results of this study will enable the USDA to better assist the wine industry."

###

Mr. CONDIT. Thank you very much.

First of all, before we continue, I would like to say that we are very appreciative of the city council of Rohnert Park to allow us to use the chambers today. These chambers remind me of my early days in politics. This is how I got started, was in local government. So we are delighted that they have extended this invitation to let us use the facility. We appreciate it very much.

Today's hearing is particularly important because of events that will be taking place in Washington in the next few weeks. Next month Vice President Gore and Secretary Espy will be likely announcing a reorganization plan for the USDA. This means that Ms. Woolsey and myself will have a lot of work to do since this subcommittee is in charge of the oversight part of agriculture. I have met with the Secretary, with Secretary Espy, and will be working with him very closely.

Today's hearing will help to make our task easier because we will learn firsthand the problems facing the wine industry and the concerns you have about the reorganization of USDA.

I am not sure that the audience is aware, but my district also has a very large wine industry; and so the information we receive today is very important to me as well.

I would like to think of the USDA as the agency that assists the wine industry. Unlike the Bureau of Alcohol, Tobacco, and Firearms and the Food and Drug Administration which primarily enforces and regulates, the USDA will offer many programs which provide direct assistance to the wine industry. This assistance can be grouped into two broad categories, technical assistance and market promotion.

We have assembled a group of witnesses, that has been mentioned, from the USDA who should provide us with thoughts and thorough and timely information about both of these topics. We will be examining several issues today. I am very interested in the phylloxera problem which has the potential of altering the course of this industry. Since California produces over 70 percent of the wine in this country, this is a great concern to me and I am sure all of you.

We will also be checking on a pair of studies that the Congress has directed the USDA to undertake. Both of these studies can be a significant benefit to the industry, and I want to know why USDA is not planning to do these studies.

We will also receive an update about the market promotion activities that are being conducted at the Foreign Agricultural Service.

I was very pleased to see a report earlier this year which showed a 93 percent increase in the value of French import of United States wine. I have been a strong supporter of the Market Promotion Program which helps to accomplish these gains. We need to increase the exports to fuel the economy engine of this country. And I am proud to say that the wine industry exports have grown by an average of 64 percent per year since 1986. This is clearly an industry that understands what is needed to compete in a global economy.

I would like to thank all the witnesses who have taken time to prepare for today's hearing. Some of the USDA witnesses have

traveled from Washington to be here, and I greatly appreciate their effort as well.

We have a practice of this committee which was started long ago of swearing all the witnesses in, so I hope you won't object to doing that. If you will rise with me, raise your right hand.

[Witnesses sworn.]

Mr. CONDIT. Thank you very much for that.

I am going to turn to my colleague, Ms. Woolsey, to introduce the panel and make whatever additional remarks she wants to make.

Ms. WOOLSEY. Thank you, Mr. Chairman.

I would first like to introduce Zelma Long. Ms. Long is the president and chief executive officer of Simi Winery. She is also a board member of the United Grape Growers of Sonoma County and a board member of Women for Wine Sense. I am very pleased that she was able to fit us into her extremely busy schedule today.

Zelma, thank you for coming.

STATEMENT OF ZELMA LONG, PRESIDENT, SIMI WINERY, HEALDSBURG, CA

Ms. LONG. Chairman Condit and Congresswoman Woolsey, thank you very much for the opportunity to testify on behalf of the industry. I'm going to keep my eye on the clock here. I'd like to—I'd like to speak today as a wine grower, winery owner, winery president, but most of all as someone who loves wine, who believes in its positive contribution to the quality of life, who's proud to be associated with such an esthetic and personal beverage, borne of agriculture, and who wishes our industry to prosper and more people around the world to enjoy our wines.

I wish to make a few brief observations and then speak specifically on the topics of more accessible research funding and on the concept of a wine coordinator in the USDA.

First, wine is an agricultural product, and it's unique among agricultural products in the way that it reflects the soils, the weather, the vintage, and the hands of the people who make it.

It's environmentally sensitive, and it reflects the nuances of its environment over its entire life of 2, 10, 30, or 50 years. We, of course, are a country very environmentally conscious these days. Wine is not a commodity.

Second, wine is an important commercial product. The source it springs from, grapes, are grown in a majority of our States. In California, grapes are the No. 1 fruit crop and the third agricultural crop, behind only milk and cattle.

Third, we're under severe economic pressure. New world countries have adopted our techniques for producing fine quality, but their cost of production is often lower. Lower prices to meet this competition; a 1991 excise tax increase; and the financial burdens that you referred to, an estimated half a billion dollars in just Sonoma County; are squeezing the profitability and in some cases the life from our businesses.

At this time particularly we need agriculture support for our business of growing grapes and producing wines. In the next 4 years, the Australian Government will fund \$13 million of research programs on grapes and wine. In addition, annually, for years, they have matched 1-to-1 industry research funds for annual research

funding of \$1½ million. Australia's grape crop is 10 percent of the size or just a tenth of just California's grape crop.

Specific areas that need support for the agriculture of wine growing—and I am going to mention just three things—No. 1, importation, development, and the evaluation of plant material, both root stock and vine clones for variety. Better grape material can enhance quality and productivity and thus value, and can lower our wine costs. New clones and varieties can help us develop new wine types or styles to better compete in the world market.

Targeted capital funding for importation has been provided through USDA and their grapevine virus program. However, only partial ongoing funding for work has been made available. Substantially more funding, targeted, committed, and ongoing, is critical.

No. 2, access to increased research funding for a host of wine agriculture. An example again of government funded research in Australia is the development of models for grape disease control. These models, computer models, help minimize chemicals for disease control and also reduce grower's costs. This is effective government funding of research. Phylloxera needs funding to study this pest and prevent future infestations. Grape Fan Leaf virus spread by nematodes can render land uneconomic to plant, and we have no known cure. The only root stocks tolerant to this virus are susceptible to phylloxera. We must find a solution to this disease.

No. 3, coordination of the issues of wine growing. Vines and wine span a range of technical, scientific, nutritional, social, regulatory, and business issues. We support the concept of a wine advocate or a wine desk within USDA to aid in communication; development of resources; coordination of the resolution of wine and vine issues; and effective use of government resources.

And to finish, I am a member of Women for Wine Sense. Our concern is that within government there are those who would prevent the full story of wine and health from being told. Support for research into the bioactive compounds of wine could be invaluable, both to control health problems and to enhance health and well-being. Perhaps an advocate could bring balance into the science of wine and health.

In summary, the wine growing industries of California and the United States need the USDA and congressional support for the business of growing wines if we're to be healthy and develop our place as a world business.

And thank you once again for the opportunity to speak before your committee.

Ms. WOOLSEY. Thank you, Zelma. I am pleased that you get to stay for the questions. I thought you were going to be so busy that you weren't going to be able to do that. We are delighted.

Mr. Campbell, do you want to go next, or do you want to—

Mr. CAMPBELL. Sure.

Ms. WOOLSEY. OK. You are next on the docket. Patrick Campbell purchased the Laurel Glen vineyard in 1977 when it was only 3 acres. The vineyard has now expanded to over 35 acres.

In 1981, Mr. Campbell established Laurel Glen Winery to produce cabernet-based wine exclusively from his estate vineyards on Sonoma Mountain.

In addition to his duties at Laurel Glen, Mr. Campbell is the president of Family Winemakers of California and a member of the executive board of the American Vintners Association.

Thank you for joining us today, Patrick.

STATEMENT OF PATRICK CAMPBELL, PRESIDENT, FAMILY WINEMAKERS OF CALIFORNIA, GLEN ELLEN, CA

Mr. CAMPBELL. Thank you very much, Lynn.

Mr. Chairman, Congressman Woolsey, let me tell you about how the MPP program helped one small American winery, my own.

Laurel Glen is a 20,000 case winery that I and my family started 20 years ago in the golden age of the California wine business. In those days the future was limitless and all that was required for success were some pretty good wines and a bit of luck.

We started with an excellent vineyard, 3 acres worth, and a firm grape sales contract. In 1980, several years later, 25 acres later, we started a winery. No one told us that fools rush in where angels fear to tread. It didn't matter in those days.

Now in 1993, we have 40 acres of vineyard on Sonoma Mountain, a flourishing business selling cabernet sauvignon, and a growing negotiant label called Terra Rosa, that accounts for the bulk of our sales.

Laurel Glen, then, is the quintessential small winery, chipping away at the niches between the large corporate operations. We represent, along with some 1,200 kindred wineries throughout the United States, the type of family farm that typified small agriculture in this county.

Someone asked me what my marketing plan was after I had been in the business for a few years. I replied that I didn't know what a marketing plan was but I guessed if I had one, it would be to sell good wine from my own vineyards to as many people as who would buy it.

The same general concept still holds, but woe be to the wine-maker and winery owner in 1993 who has not refined his business beyond this rudimentary level. These days we have to look at ROEs, CPAs, PCAs, BATFs, FDAs, HHSs, and, yes, MPPs, and USDAs.

In 1989, I was fortunate to have more demand for my wine than I could supply. Nonetheless, I felt without an international presence the future of my business might be restricted. I had heard about VinExpo, the huge biannual international trade show in Bordeaux. I set about applying for MPP funds without which I could not have afforded to go.

We arrived in June. The temperature was 110 degrees. The exposition hall was enormous: 15 football fields worth of wineries, literally from Algeria to Zimbabwe. You could walk a kilometer to get from Chinese rice wine to Bulgarian bull's blood. In the middle of these literally tens of thousands of wines from thousands of wineries from all over the world, from scores of countries, was little Laurel Glen vineyard.

I can think of no better image than this for what American wineries are up against when they try to export, in fact, as Zelma says, when they try and exist in these days. To say I was overwhelmed at that instant was an understatement. I still remember

the crestfallen look on the faces of big shot American wine producers—legends all in the American wine press—when the international world of wine passed them by at VinExpo without even a glance. Didn't have a clue who they were.

Laurel Glen was lucky though. We had a lot in common with European wine buyers. They were looking for smaller properties, properties tied to the soil, making hand-crafted individualistic wines. We ended up with five enthusiastic distributors from Holland, England, Germany, Belgium, and Denmark.

Thanks to the MPP funds, Laurel Glen has established a distribution network that wineries many times larger would be jealous of. We now sell in 15 countries both in Europe and the Far East. This is 4 years later.

My point is that we got started early. We doggedly pursued foreign opportunities, participated in each subsequent VinExpo, visited Europe at least yearly, and sponsored generic advertising programs for American wines in several countries. None of this would have been possible without MPP funds.

Laurel Glen now exports some 18 percent of our wines. This represents thousands of cases, hundreds of thousands of dollars, all of which adds to the American balance of payments, enhances the reputation of the United States abroad, and keeps alive a true American tradition of agriculturally based entrepreneurship.

I understand that in the recent rush to save tax moneys, Congress has shaved off some 30 percent from the MPP budget. This is penny-wise and pound foolish. I challenge Congress to name any single program that is more costeffective when used correctly. MPP funds are not a giveaway, a boondoggle, a pork barrel, a subsidy. Rather, they offer matching funds to those who can use them to mutual advantage.

The program's not without problems, though, and I would like to mention briefly four areas that I see need addressing, at least addressing, if the program is to continue in any form.

The paperwork is formidable. Isn't there any way to lessen the detail work? Even fairly good-sized wineries have simply thrown up their hands at the prospect of filing papers day after day, month after month. Large wineries devote virtually full-time personnel to this one task of filing MPP paperwork. Small wineries simply cannot do this, and I might say the only reason I have done it is my associate at the winery, Ray Kaufman, happens to be on the international regulating and monitoring program at MPP. Ray fills in all the stupid paperwork for me. But I have talked to wineries several times my size who say, "How can you deal with it; we can't even bother with it; it's too onerous; let the big wineries do it."

Then we have the problem where the big wineries dominate the program; sometimes moneys are wasted and the money doesn't go to the smaller wineries who really could be representing the United States.

Two, the program is costly. The California Wine Institute is charged with administering this program. For this service they assess 10 percent of the total received as an administration cost. That's 10 percent on top of the considerable costs that each winery pays its own staff to fill out forms. Less paperwork would reduce costs. Same old situation.

Three, the MPP is not well set up to easily include non-California American wineries. The American Vintners Association, which represents wineries from 38 of the 44 American wine-producing States, is well placed to see that wineries around the United States are positioned to participate in the program.

Four, no one knows whether the MPP will survive in the current fiscal climate. But I can assure you that however the program may be perceived, small wineries have put the funds to good use. The American Vintners Association and Family Winemakers of California are committed to the concept of matching funds for export promotion because American wineries are faced with increasing competition from heavily subsidized foreign wineries. The playing field is not level.

Gee, our opening speaker stole my line but I bet it's going to be repeated by just about every subsequent speaker today: The playing field is not level. American wineries are not dealing on a level playing field.

This is why matching promotional funds for this vital American agricultural product should be an ongoing and enthusiastically supported part of USDA's agenda.

In conclusion, the MPP represents an enormous opportunity to wineries wishing to export. It's good for business; it's good for the U.S. economy; it's good for our Nation's balance of trade.

With a little attention to the points I have mentioned and continued funding, the program could be made even stronger.

Thank you very much.

Ms. WOOLSEY. Thank you, Patrick.

[The prepared statement of Mr. Campbell follows:]

TESTIMONY BEFORE U.S. HOUSE OF REPRESENTATIVES
GOVERNMENT OPERATIONS SUBCOMMITTEE ON
INFORMATION, JUSTICE, TRANSPORTATION AND AGRICULTURE

August 24, 1993
Sonoma County
California

RE: MPP Program

Mr Chairman,

My name is Patrick Campbell. I am the president of Family Winemakers of California and a board member of the American Vintners Association. But today, I would like to speak to you as the owner of Laurel Glen Winery in Glen Ellen, Sonoma County, California.

Laurel Glen is a 20,000 case winery that my family and I started 20 years ago, in the golden age of the California wine business. In those days, the future was limitless and all that was required for success were some pretty good wines and a bit of luck.

We started with an excellent vineyard -- 3 acres worth -- and a firm grape sales contract. In 1980, 25 more acres later, we started a winery; no one told us that fools rush in where angels fear to tread. It didn't matter in those days! Now, in 1993, we have all of 40 acres of vineyard on Sonoma Mountain, a flourishing business selling cabernet sauvignon, and a growing negotiant label called Terra Rosa, that accounts for the bulk of our sales.

Laurel Glen is, then, the quintessential small winery, chipping away at the niches between the large corporate operations. We represent, along with some 1200 kindred wineries throughout the United States, the type of family farm that

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typifies small agriculture in this country.

Someone asked me what my marketing plan was after I had been in business for a few years. I replied that I didn't know what a marketing plan was, but I guessed that if I had one it would be to sell good wine from my own vineyards to as many people as would buy it.

That same general concept still holds, but woe be to the winery owner in 1993 who has not refined his business beyond this rudimentary level. These days we have to look at ROE's, CPA's, PCA's, BATF's, FDA's, HHS's and, yes, MPP's and USDA's!

In 1989, I was fortunate, unlike many of my peers, to have more demand for my wine than I could supply. Nonetheless, I felt that without an international presence, the future of my business might be restricted. I had heard about VinExpo, the huge bi-annual international trade show in Bordeaux. I set about applying for MPP funds, without which, I could not have afforded to go.

We arrived in June. The temperature was 110 degrees. The exposition hall was enormous: 15 football fields worth of wineries from Algeria to Zimbabwe; you could literally walk a kilometer to get from Chinese rice wine to Bulgarian bull's blood! In the middle of these literally tens of thousands of wines from thousands of wineries, from scores of countries was little Laurel Glen.

I can think of no better image than this for what American wineries are up against when they try to export. To say I was

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overwhelmed was an understatement. I still remember the crestfallen look on the faces of big shot American producers -- legends all in the American wine press -- when the international world of wine passed them by with not even a glance.

Laurel Glen was lucky, though. We had a lot in common with the European wine buyers: they were looking for smaller properties, tied to the soil, making hand-crafted, individualistic wines. We ended up with 5 enthusiastic distributors in Holland, England, Germany, Belgium, and Denmark.

Thanks to the MPP funds, Laurel Glen has established a distribution network that wineries many times larger would be jealous of. We now sell in fifteen countries, both in Europe and the Far East.

My point is that we got started early; we doggedly pursued foreign opportunities, participated in each subsequent VinExpo, visited Europe at least yearly, and sponsored generic advertizing programs for American wines in several countries. None of this would have been possible without MPP funds.

Laurel Glen now exports some 18% of our wines. This represents thousands of cases, hundreds of thousands of dollars: all of which adds to the American balance of payments, enhances the reputation of the U.S. abroad, and keeps alive a true American tradition of agriculturally based entrepreneurship.

I understand that in the recent rush to save tax moneys, Congress has shaved off some 16% from the MPP budget. This is penny wise and pound foolish. I challenge Congress to name any

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single program that is more cost effective. MPP funds are not a giveaway, a boondoggle, a pork barrel, a subsidy. Rather, they offer matching funds to those who use them to advantage.

The program is not without problems, though.

1) Paperwork is formidable. Is there any way to lessen the detail work? Even fairly good-sized wineries have simply thrown up their hands at the prospect of filing papers day after day, month after month. Large wineries devote virtually full-time personnel to this one task. Small wineries simply cannot do this.

2) The program is costly. The California Wine Institute is charged with administering this program; for this service, they assess 10% of the total received as an administration fee. That's 10% on top of the considerable costs that each winery pays to its own staff to fill out forms. Less paperwork would reduce costs.

3) The MPP is not well set up to easily include non-Californian American wineries. The American Vintners Association, which represents wineries from 38 of the 44 American wine-producing states, is well-positioned to see that wineries around the United States are positioned to participate in the program.

4) No one knows whether the MPP will survive in the current fiscal climate. But I can assure you that however the program may be perceived, small wineries have put the funds to good use.

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The American Vintners Association and Family Winemakers of California are committed to the concept of matching funds for export promotion, because American wineries are faced with increasing competition from heavily-subsidized foreign wineries. The playing field is not level. This is why matching promotional funds for this vital American agricultural product should be an ongoing and enthusiastically supported part of USDA's agenda.

In conclusion, the MPP represents an enormous opportunity to wineries wishing to export. It's good for business, good for the United States economy, and good for our nation's balance of trade. With a little attention to the points I have mentioned and continued funding, the program could be made even stronger.

Ms. WOOLSEY. Next we have Deborah Rowland. Ms. Rowland owns Pacheco Vineyards and Pacheco Ranch Winery in Marin County. She owns this with her husband. Pacheco Ranch is the only winery in Marin County to grow, produce, and bottle their own wine.

And lest anybody forget, Marin County is the southern end of the Sixth Congressional District.

Welcome, and thank you for coming.

STATEMENT OF DEBORAH S. ROWLAND, OWNER, PACHECO VINEYARDS AND PACHECO RANCH WINERY, IGNACIO, CA

Ms. ROWLAND. Thank you, Chairman Condit and Ms. Woolsey, for asking me to speak today. This is my first time before a congressional hearing, and I was a little surprised to be asked because, by industry standards, we are very, very tiny. We produce less than 1,000 cases every year of Marin County wine, which is very unique. And our location is very unique. We are right off Highway 101, surrounded by residential and commercial development.

You might say that we are well off the beaten track of what everybody would consider the northern California wine industry. And because of that, we are also out of the loop as far as getting information that is current and usable to us. We do try to keep up with all current publications that are out, including the one from the University of California, which are very helpful; but we face all the same problems the big wineries do. We just aren't able to get the same kind of attention, maybe, or assistance the big wineries are.

We do not—we are fortunate not to be plagued at this moment by the pest phylloxera. But we do have another disease that is—I understand by trying to talk to people, that is very serious also, Pierce's disease, which is equally as devastating to a vineyard, particularly as small as ours. We are less than 10 acres, and we are currently in a replanting program that we hope will be successful.

But for us to replace about a fourth of our vines in the next couple—each year for the next few years, 4 years, will be very hard for us to do. We don't even know if we are treating this disease properly at this moment. We are in a county that the Agricultural Department is very good; but they are mainly interested in the dairy industry which is the predominant agricultural industry in Marin. Therefore, their assistance has been minimal due to their lack of information. They are not able to get information that they need to help us out either.

So what I would ask for the concern of the USDA would be to help get more current information, assist the University of California more in its research, and disseminate that information more completely, so even the small growers and producers like ourselves can be—have access to this to help us through this very difficult time in the wine industry. I think the first two speakers have expressed, you know, all the difficulties that we are having. We may have them on a smaller scale, but they still exist. And I know there are many people in my situation as well.

So thank you.

Ms. WOOLSEY. Thank you.

[The prepared statement of Ms. Rowland follows:]

PACHECO RANCH WINERY



235 Alameda Del Prado / Ignacio, CA 94949 / (415) 883-5583

August 19, 1993

Lynn C. Woolsey
6th District- California
Congress of the United States
House of Representatives
Washington, D.C. 20515-0506

Dear Congresswoman Woolsey:

Thank you for inviting comments on the wine industry in Northern California. My family has a small vineyard in Marin County near the Sonoma County border on property that is the last remaining part of a Mexican Landgrant given to my husband's great, great grandfather in 1834. We are continuing the family tradition in agriculture by growing grapes and making wine.

Because we are not in the "heart" of the wine grape growing regions of Sonoma and Napa many of the traditional sources of information effecting the wine industry are not readily available to us. The agriculture in Marin County is mainly dairy farming related, so the County Agriculture Department's expertise is mainly in the dairy industry rather than the grape growing industry. However, new vineyards are springing up yearly in west Marin and the need for assistance and updated information is greater and greater.

For the last ten (10) years we have been relying heavily on a research publication published by the University of California on Grape Pest Management. This manual has been invaluable to growers like ourselves in identifying and

agriculture. The USDA could be extremely helpful to the grape growing industry if they would assist and enhance current efforts in research and dissemination of updated information such as the kind available in the 1981 Grape Pest Management manual through the University's Agricultural Extension and county agriculture departments.

I believe constant updating and dissemination of current information could be a crucial role for the USDA in the Northern California wine industry's growth and health.

Sincerely,



Deborah S. Rowland

Pacheco Vineyards &
Pacheco Ranch Winery

Ms. WOOLSEY. Herbert Schmidt. Mr. Schmidt has been working with the Mondavi Winery for 13 years and serves as their vice president of governmental and community relations. He is also on the board of directors of the American Vintners Association.

Thank you for taking the time to be with us today.

STATEMENT OF HERB SCHMIDT, VICE PRESIDENT, GOVERNMENT AND COMMUNITY RELATIONS, ROBERT MONDAVI WINERY, OAKVILLE, CA

Mr. SCHMIDT. Thank you for having us here. I am from Napa County. I do have the proper documentation to visit here. However, I did think that the National Guard guy at the border there, the county line, charging \$1 to get in was a bit much.

At any rate, I wanted to also thank you for having this hearing and the chairman coming to the north coast to hear our issues.

Let me start by saying that the main issue facing our industry is the state of the economy in California. California is the largest market for us, and I assume for many other wineries. It is crucial that we turn our economy around now. Otherwise jobs will be lost at the winery level, the winery suppliers, the distributor level, where we're already seeing a major consolidation, and most importantly at the restaurant, retail, and hotel level. Nor will the vineyards be able to be replanted, extending the pain to the State's growers and our suppliers.

I will be attending the D.C.C.C. retreat this weekend in Sundance, UT; and that will be our message.

However, I understand that the message of this hearing is to focus on USDA and the effectiveness of their programs that provide support for our industry. I would like to concentrate on our export programs from a public policy standpoint and from an operational perspective.

The Market Promotion Programs do need to be reviewed and possibly reformed. If the participants are viewed by the public as not using the money effectively, then we will lose the MPP all together; and that would be tragic. We believe that our industry should take the lead in being part of the process for reform.

Specifically, we would like to see that the emphasis be placed on generic wine promotion by region, i.e., Napa, Sonoma, California, et cetera. The total spent on brand name promotion should be limited by a percentage, such as beef does, the beef industry does, and the total that any one company can receive be capped.

I think Senator Leahy has done the right thing in his successful attempts to make some changes on the reconciliation bill. However, we may not get where we want to go through those changes. We agree that this should focus on small and medium-sized businesses to achieve the goals of the program. However, we disagree with using the Small Business Administration's definition of a small winery or medium-sized business as the standard.

At this point it's very difficult for a small winery or even a mid-sized winery to export wines because of the costs and the very nature of the successful marketing for fine wines. As Mr. Campbell, Patrick, has said, the costs are just too high to do it individually. They must join the effort with other members of their particular associations. This is the best kind of program.

However, the guidelines for our industry are weighted heavily on the brand name programs, thereby reducing the efforts of small wineries to participate. The real problem centers around the established—the rules established for participation. Advertising is at the center of the controversy.

Most small or medium wineries cannot afford brand advertising, so they are locked out of the branded programs. Not in total; but they are substantially at a disadvantage. It would also be helpful if they could be reimbursed for wine sample costs, the venue where they are holding their tastings, and other normal marketing expenses. The producers of premium and ultra premium wines are critical to our industry. They are essentially small, family-owned businesses. They focus the image of California north coast wines as very high quality premium wines.

All wine regions focus on their best wines because these show the potential and are of the greatest interest to the professionals.

In my written testimony I quoted Senator Leahy; but since he's already on the record in the Senate, I think I'll skip over that. But one of the main things I think that we sometimes miss in this whole program is the job creation that MPP provides us. And I think that's very important, especially for our State right now.

Going past MPP, let me talk about research a little bit. The wine industry is an agricultural industry that employs sophisticated integration of cultural practices and refined plant materials to produce wines that compete successfully in national and international markets. The farm-gate value of grapes in California for the 1992 growing season was \$1 billion. The value added process of crushing, fermenting, aging, and other winemaking practices produces finished wines with a market value of about \$6 billion.

The wine industry contributes large tax revenues through State, local, and Federal levies. The production aspects of agriculture for the wine and grape industries have a critical need for the additional support through Federal research funding.

Major production areas of the agricultural—the agriculture of wine are supported by dwindling State support. California producers contributed over \$600,000 for the 1992, 1993 research programs. But private contributions—and that is thanks a lot in part to Justin Myers, Silver Oak Winery in Oakville—the private contributions are voluntary and even though they have increased in the total amount, they are volatile in funding any long range research programs.

Grapes are perennial crops and, thus, research on all the aspects of their biology, pest and disease relationships, and production, must have a longer term and thus strategic focus.

The USDA is in a key position to coordinate a strategic program for funding for key agricultural issues in wine production as well as administering competitive grants to address the strategic issues. We break these strategic issues into three areas: Plant materials. All major wines are produced from—I can't see that here—*Vitis vinifera* stocks that trace their heritage to European backgrounds. Winemakers continue to seek new European stocks to supply clonal variation of wine characters to meet the evolving tastes of consumers.

Grape growers are also seeking new European stocks to provide natural resistance to pests, disease, adaptation to site conditions such as drought and soil conditions. Natural resistance to pests, disease pressures, allow growers to move away from the synthetic pesticides and control agents. The important—the importation of grape plant material is strictly regulated by the Animal and Plant Health Inspection Service, APHIS.

The USDA has assisted the U.S. grape importation needs by providing capital for the construction of the Grape Importation and Clean Stock Facility at Davis, thanks to Mr. Fazio.

Significant contributions also came from private industry and the University of California. This facility is nearly complete in its construction. The facility was designed to provide operating funds for sales of certified plant materials to cooperating nurseries.

However, tightening regulations on the plant materials may limit the ability of the facility to be completely self-supporting. Grape pests that need attention from the United States—from the industry and the USDA, obviously phylloxera, nematodes, bacterial diseases such as Pierce's disease that is spread by an insect vector from surrounding vegetation that harbors the disease but does not die from the infection; grape diseases: Powdery Mildew, Grape Leaf Roll Complex, Grape Fan Leaf Complex.

As you know, we have been successful in receiving some funding through this year's agriculture appropriation bill for grape virology and phylloxera. However, we need to commit ourselves to long-term funding for the USDA grape virologist research position at UC Davis. I would like to thank Tim Terry in Vic Fazio's office for that.

We also support the USDA wine desk. The liaison between USDA and the wine industry is very important. We agree that this is a necessary component in the successful evolution of our industry.

However, its function should be limited to coordination of liaison and advice to counsel. The last thing we would want this to develop into is another agency that needs our attention and resources. It would not be productive for the Federal Government or the wine industry to put in place another regulatory body between us and our consumers. We must be careful to structure this proposal so this does not happen.

Areas of discussion for another hearing, if it should come to pass, I think, could center around the positive aspects of wine growing on our environment, and the positive health aspects and the positive health benefits of moderate wine consumption, versus our national health care policies.

Again, I thank you for your time and this opportunity. Just remember, we are the good guys. The industry is doing its share, and we look for you to assist us in the synergy of our joint efforts to make a move to a brighter future.

As we say, "To Your Health."

Ms. WOOLSEY. Thank you, Herb.

Anybody that wears that tie can get into Sonoma County.

Mr. SCHMIDT. It's my phylloxera tie.

Ms. WOOLSEY. It is the proper tie.

[The prepared statement of Mr. Schmidt follows:]

My name is Herb Schmidt. I've been with the Robert Mondavi Winery for 13 year's and serve as the Vice President of Governmental and Community Relations. I'm also on the board of directors of the American Vintners Association, which is the national trade association for the wine industry based in Washington D.C. The A.V.A represents wineries from 43 states.

I wanted to thank Congresswoman Woolsey for calling this hearing and Chairman Condit for coming to the North Coast to discuss these issues.

Let me start by saying that the main issue facing the industry is the state of the economy in California. California is the largest market for us and I assume for many other wineries. It is crucial that we turn our economy around now. Otherwise jobs will be lost at the winery level, the winery suppliers, the distributor level -- where we are already seeing consolidation -- and most importantly at the restaurant, retail and hotel level. Nor will the vineyards will be replanted, extending the pain to the state's good growers and their suppliers.

I'll be attending the D.C.C.C. retreat this weekend and that will be our message. However, I understand this hearing is to focus on the U.S.D.A. and the effectiveness of their programs that provide support for our industry.

I. I would like to concentrate on our export programs from a public policy standpoint and from an operational perspective. The market promotion programs do need to be reviewed and possibly "reformed." If the participants are viewed by the public as not using the money effectively, then we will lose the MPP altogether. That would be tragic.

A. We believe that our industry should take the lead in being part of the process for reform. Specifically we would like to see:

1. The emphasis placed on generic wine promotion by region, e.g., Napa Valley, Sonoma, California, etc.
2. The total spent on branded promotion be limited by a percentage (as beef does) and the total any one company can receive be capped.
3. Senator Leahy has done the right thing in his successful attempts to make some changes in the reconciliation bill. However, we might not get where we need to be through those changes.

4. We agree that this should focus on small and medium sized business to achieve the goals. However, we disagree with using the small business administrations definition of a small or medium size business as the standard.

B. At this point, it is very difficult for a small winery or even mid size to export wines because of marketing costs and the very nature of successful marketing for fine wines. The costs are just too high.

They must join in a joint effort with other members of their particular associations. This is the best kind of program. However, the MPP guidelines for our industry are weighted heavily on branded programs thereby reducing the efforts of small wineries to participate.

The real problem centers around the rules established for participation. Advertising is at the center of the controversy. Most small or medium size wineries cannot afford brand advertising so they are locked out of the branded programs. It would also be helpful if they could be helped with travel, lodging and other normal marketing expenses. The producers of premium and ultra premium wines are critical to our industry. They are essentially family-owned small businesses. They focus the image of California North Coast wines as very high quality, premium wines. All wine regions focus on their best wines because these show the potential and are of greatest interest to the professionals.

I'd like to quote Senator Leahy (Pat) in his MPP amendments act of 1993:

"I have examined the effectiveness of the Market Promotion Program and possible ways to restructure it. I want to make sure that the money spent on the Market Promotion Program is making a difference to the organizations that receive the grants, and that the Market Promotion Program achieves the goal intended in its inception -- to promote U.S. agricultural products abroad."

"The question is -- why companies such as these, with substantial advertising budgets of their own, have received thousands of dollars from the Government for promotions they would likely conduct anyway?"

"We do not want the Market Promotion Program to be a corporate welfare program. American taxpayers do not want that. Farmers do not want that. We need the Market Promotion Program to do what it is supposed to do -- help small farmers and small business owners develop new markets. That is what I have set out to begin with this legislation."

However, the devil is in the detail. Our suggestion will appear in our written testimony, which we will submit before the end of the month.

II. Research -- The wine industry is an agricultural industry that employs sophisticated integration of cultural practices and refined plant materials to produce wines that compete successfully in national and international markets. The farm-gate value of grapes in California for the 1992 growing season was \$1 Billion. The value added process of crushing, fermenting, aging, and other wine making practices produces finished wines with a market value in excess of \$6 Billion.

The wine industry contributes major tax revenues through state, local and federal levies. The production aspects of agriculture for the wine and grape industries have a critical need for additional support through federal research funding.

Major production areas of the agriculture of wine are supported by dwindling state support. The California producers contributed over \$6000,000 for the 1992-1993 research programs. The private contributions are voluntary and, even though they have increases in total amount, are volatile in funding any long-range research programs. Grapes are a perennial crop and thus research on all aspects of their biology, pest and disease relationships, and production must have a longer term and thus strategic focus. The USDA is in a key position to coordinate a strategic program of programmatic funding for key agricultural issues in wine production as well as administering competitive grants to address the strategic issues. We breakdown these strategic issues into 3 areas:

A. Plant materials:

1. All major wines are produced from the *Vitis vinifera* stocks that trace their heritage to European background. Winemakers continue to seek new European stocks to supply clonal variation of wine characters to meet evolving tastes of consumers. Grape growers also seek new European stocks to provide natural resistance to pests, diseases, and adaptation to site conditions such as drought and soil characters. Natural resistance to pest and disease pressures allows growers to move away from synthetic pesticides and control agents. Importation of grape plant material is strictly regulated by the Animal Plant Health Inspection Service (APHIS).

2. The USDA has assisted the United States grape importation needs by providing capital for the construction of the Grape Importation and Clean Stock Facility at Davis,

California. Significant contributions also came from private industry and the University of California. That facility is nearly complete in its construction. The facility was designed to provide operating funds from sales of certified plant materials to cooperating nurseries. However, tightening regulations on the plant materials may limit the ability of the facility to be completely self-supporting. The facility carries out a national mandate to federal government agencies to provide for the importation, quarantine, disease testing, and clean up and release of grape plant materials. A valuable contribution from the USDA is the assurance that the facility will function effectively by providing operating funds for the facility.

B. Grape pests that need attention from the industry and USDA:

1. Phylloxera - A blight which not only effects growers and vintners but the whole image of our industry.
2. Nematodes - Feeding on vines and reduction of production capacity. Feeding on vines and transmission of diseases such as Grape Fan Leaf complex
3. Bacterial diseases such as Pierce's Disease that is spread by and insect vector from surrounding vegetation that harbors the disease but does not die from the infection.

C. Grape diseases:

1. Powdery mildew
2. Grape Leaf roll Complex
3. Grape Fan Leaf Complex

As you know, we have been successful in receiving some funding through this year's ag appropriations bill for grape virology and phylloxera. However, we need to commit ourselves to long term funding for the USDA grape virologist research position at UC Davis. Thanks to Tim Terry in Vic Fazio's office for his help.

USDA Wine desk -- The liaison between USDA and the wine industry is very important. We agree that this is a necessary component in the successful evolution of our industry. However, its function should be limited to coordination, liaisons and advice and counsel.

The last thing we would want this to develop into is another agency that needs our attention and resources. It would not be productive for the federal government or the wine industry to put in place another regulatory body between us and our consumers. We must be careful to structure this proposal so that does not happen.

Areas of discussion for another hearing or meeting could center around the positive aspects of wine grape growing on our environment and the positive health benefits of moderate wine consumption vs. national health care policies.

Again, thank you for your time and this opportunity. Just remember we are the good guys.

The industry is doing its share -- we look to assist you and in the synergy of our joint efforts move to a brighter future. As we say, "To Your Health!"

Ms. WOOLSEY. Dr. Linda Bisson. Dr. Bisson received a Ph.D. degree in microbiology from the University of California, Berkley. She was a senior research associate at Harvard before joining the Department of Viticulture and Enology at the University of California, Davis. Dr. Bisson is currently the chair of the Department at UC Davis.

Thank you for joining us, Doctor.

STATEMENT OF LINDA F. BISSON, Ph.D., CHAIR, DEPARTMENT OF VITICULTURE AND ENOLOGY, UNIVERSITY OF CALIFORNIA, DAVIS, CA

Dr. BISSON. Thank you for holding this hearing and inviting me to testify. I thought I would limit my comments to—I only have 5 minutes—what I know best, and that's the research support coming from the USDA or the lack of research support, I should say, coming from the USDA.

The USDA does maintain a research program through ARS on grapes, but that is primarily focused on table grapes and on raisins. There is some research spillover to winegrapes because to certain insect pests, a grape is a grape, they don't care what the final destiny is of that particular grape.

But I think it is fair to say that the programs are not being supported in proportion to the support—research support that is going to other agriculture commodities.

In my written testimony, I included a table that showed that grapes were the ninth commodity nationwide in farm-gate value, but yet when you looked at the research being sponsored and the plant genome project, grapes does not appear on that list as getting any funding; and, in fact, grapes are not receiving any funding.

There are lots of reasons for why the USDA doesn't have an extensive program in the winegrape area, the wine area; and I have listed those in my testimony. And I will hit some of the highlights.

One major reason, I think, is largely historical; when a lot of USDA policies were established, it was during prohibition or just postrepeal, and they don't seem to have been revisited.

The USDA did maintain, prior to prohibition, several vineyards, experimental vineyards in California, that were dedicated to winegrape research. One of those vineyards in Oakville was deeded over to the Department of Viticulture and Enology, and we have been using it ever since. So we have been doing research that was previously conducted by the USDA.

Now, the scientists with the USDA that do work in California on grapes collaborate quite strongly with my colleagues in the Department of Viticulture and Enology at the University of California. In fact, many people in industry don't know who is working for whom. And I think that's a very good demonstration how strong this collaboration is. Everyone is working together to try and cover the bases, but we have insufficient resources to cover all of the bases.

There are also scientific factors as to why grapes are not being supported as a research organism. To be supported as a research organism, you have to be competitive in a competitive grants process, which means there has to be some hope that you're going to push forward the frontiers of knowledge on a particular system,

plant system, within a reasonable period of time. And reasonable in terms of USDA grant systems is 2 to 5 years.

If you're starting a project with grapes and you're going to be putting them in the ground, starting a field trial, it's 5 years before you will get your first season's worth of meaningful data. It's 8 to 10 years before you can even hope to complete a project. So the timeframe for doing research with grapes is totally incompatible with a 2- to 5-year timeframe on awarding grants and expecting to see progress.

There's also, because the grape research field is small, a lack of understanding of the research issues that are important to grapes. And one of my colleagues shared with me comments that she received on a recent research proposal that was not funded by the USDA, and I'd like to read some of them to you. Many of the comments centered around another crop being a better system for her to be working on genome research and not grapes. There was some concern—one of my favorite comments is the "world has all kinds of wines now, so there is no need for different varieties." Another favorite comment is the "importance of the classic varieties is a myth propagated by wine merchants." It is a totally ridiculous comment, but it does reflect someone who does not really understand what is important in the wine industry. And another comment, "this research would not lead to an improvement in and sustainability of U.S. agriculture because the research focuses on quality rather than yield." Essentially, wine is quality. I mean that's important. Yield is of minimum importance with respect to quality.

Several comments, "the industry should fund the work. The work proposed would be better done in garlic where your clonal differences are less likely to be imaginary."

So part of the problem we face in trying to get research done, is that it is a unique crop. It is not a very scientifically tractable crop because of the timeframe it takes to do things in. And what is clearly needed—and not just for grapes—is some sort of—we're calling it "orphan crops" program, research programs that would provide funding for issues that are important to economically important commodities, not simply scientifically important commodities or issues to be investigated. And there are many things that are not being investigated by the department because of a simple lack of resources, both coming through the grants program as well as to the USDA scientists.

And while talking about phylloxera and what an important problem it is, it is a very important problem but it is largely an economic problem. It is a problem for which there are scientific solutions.

Pierce's disease is another matter. We do not have scientific solutions to Pierce's disease. The bacterium that causes the disease is very poorly characterized. In fact there's not even a good agreement as to what kind of bacterium it is. There has never been a concerted research effort to address this pest, and it's growing in importance in the industry because the insects that harbor this organism and transmit it to grapevines seem to be associated with urban landscaping.

So as urban environments encroach upon agriculture, there's going to be a greater and greater incidence of this pest for which

we have no cure. There is no real cure. We don't really understand the cause of the disease or the organism that's causing the disease.

I think the USDA, as I stated in my written testimony, is going to be our most important Federal agency in the next decade. I think it's going to need the resources to do an excellent job, to do a better job than is being done now.

Perhaps there needs to be some reorganization of resources. I don't really know how the USDA is organized now, so I don't want to suggest any reorganization. But I think one of the major problems that we're going to face early in the next century is the fact that population growth is outstripping our food supply. I've seen lots of reports that indicate the magnitude of the problem.

I haven't seen any report coming out with any sort of strategic plan as to how this is going to be addressed. It is a global problem. We are going to be able to come up with enough food to feed the people on this planet because we certainly don't want to see Somalia repeated all over this globe.

I think the USDA is going to have to take leadership in addressing this problem, in identifying what the problem is, what potential solutions are, what types of foodstuffs we should be increasing the production of, and take a more proactive role in protecting agriculture and agriculture as an industry in all of its aspects, because it is our food supply. There's no way to divorce the two.

I also think the USDA is going to have to get more funding to address their role in human health and nutrition. The USDA has been charged with nutritional aspects of health, of human health, not the NIH.

And as I mentioned in here, the National Institute of Alcoholism and Alcohol Abuse, their annual research grants budget for just studying alcohol, negative effects of alcohol, is about \$60 million. The total budget that USDA has for looking at all other nutritional questions is about \$2 million. So that's 30 to 1 going on just a single commodity trying to prove why it's bad for you.

Ethanol is an energy source; that is, we metabolize it for calories. That role of ethanol in our diet has been totally ignored scientifically in this country, not in other countries; but it's been totally ignored in this country. And I believe it is an important component in our diets because we have retained the ability to metabolize it and get energy from alcohol that we consume.

I think we really need to more thoroughly investigate the role of this compound in the diet because we are never going to understand its role in disease if we don't understand its role in nutrition and how we metabolize it.

So I think we really do need to push that program, and it falls within the purview of the USDA, as does the role of other pharmacologically active compounds in plants. There's a whole host of compounds in plants that impact health about which we know very little, antioxidants, immunostimulants. They've been shown to be very important in our diet, but we haven't even identified what these compounds are.

Wine is more chemically complex than blood serum. There are many things in there. We don't understand what their roles are. We don't understand what their roles are in the plant; we certainly don't understand what the roles are in the diet. But many of them

are protective against cancers. They have been shown to be protective against cancers in animal studies. We really need to sort through what are these compounds, what are the important ones, what are the ones that might be potentially negative, and then use that as part of a breeding program to breed commodities with health in mind, not just attractiveness and production or sales. Because I think health is a component of quality, and we can make it a component of quality.

I'd like to end by saying we're starting to develop, I think, a unique program at UCD, which is to provide a bridge between the School of Medicine and the College of Agriculture. We are setting up a program that involves scientists from the School of Medicine, particularly in the area of clinical nutrition but covering all aspects of medicine, nutritionists that we have in the College of Agriculture, as well as production scientists such as those found in my Department of Viticulture and Enology. Our goal is to define what the important active and dietary components are of plants by doing the full spectrum of the studies: How that compound is produced in plants and what its fate is during processing and what its fate is in the human body.

And we hope that this program will lead to much better understanding of nutrition in the human diet and help us to find for the population, for the public, what is really healthy and what isn't. Because organic does not mean healthy. And there is a tremendous amount of misinformation going out to the public that's going to be damaging to the public health in the long run. Because many of our molds and things that are addressed by fungicide application produce compounds that are the most potent carcinogens known.

And if we don't watch out what we're doing with our food supply, what we think is healthy may, in fact, be causing public health disasters in the future. And I think the USDA is going to have to play a lead role in getting that information out to the public, getting them the facts about what other people might be proposing is true and accurate.

And with that, I will thank you again for holding this hearing and inviting me.

Ms. WOOLSEY. Thank you, Doctor.

[The prepared statement of Dr. Bisson follows:]

Hearing of the Government Operations Committee

Congress of the United States

**Role of the USDA in Support of the
Wine and Winegrape Industries of the United States**

Testimony of

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Introduction

I would like to thank you for the invitation and the opportunity to address this committee on what I believe is a very important topic. The purpose of this hearing is to assess the current role of the USDA in maintaining an economically healthy and competitive wine and winegrape industry in the United States. The USDA currently does not play a major part in addressing the research needs of the wine and winegrape industry, especially in comparison to the assistance given to other agricultural commodities. And, until the recent new marketing promotion program, did not provide much direct support at all to the wine industry. The USDA does have a research program for table grapes and raisins from which there is a spill-over benefit for winegrapes. There is a long and productive history of collaboration between USDA and UC scientists on issues pertaining to raisin and table grapes. On occasion USDA scientists have conducted research projects on winegrapes, but there is no consistently funded program in this area. The USDA has supported wine and winegrape research through CSRS and funding of the state Agricultural Experiment Stations, but wine and winegrapes (as a commodity) do not receive a proportionate share of USDA allocations. A national grape importation facility, which will be of tremendous benefit to the wine and wine grape industry, has been funded *via* the USDA, but will not be receiving any annual operational funds from the USDA. There are historical, political and scientific reasons for the lack of involvement of the USDA in support of a national wine and winegrape industry.

I. Role of the USDA in Support of the Wine and Winegrape Industry

A. Historical Factors

Many of the current USDA policies were established during, or just after, prohibition and, with respect to the wine and winegrape industries, do not seem to have been revisited post-repeal. In the 1950s the USDA deeded their experimental vineyard in Napa Valley, which had been idle for decades, over to the Regents of the University of California to be used by the Department of Viticulture and Enology for our research program. USDA scientists stationed at UCD have at times conducted research on winegrapes using our department vineyards and support staff.

B. Political Factors

There are also political factors explaining why the USDA does not have a role in support of the grape or wine industries. Grapes and wine are considered to be a regional (*i.e.*, California) commodity, in contrast to other crops. With the majority of the states now boasting their own wine industries this is no longer valid, but the attitude persists nonetheless. Commodities perceived as region-specific seem to fare relatively poorly in resource allocations at the federal level, regardless of their overall contribution to the economic strength of the United States. Table 1 shows the top 20 agricultural commodities by farm gate value nation-wide. Note that grapes ranks ninth overall. Table 2 shows the level of funding by grant number and total dollars awarded for plant genome research projects. Grapes, number nine, and citrus (another "regional crop"), number ten, do not appear anywhere on this list, and to my knowledge are not receiving any federal

support for this type of research. For other commodities, there is a good correlation between farm gate value and the level of federal dollars invested in genome research.

A second "political" factor concerns the choice of lead agency for wine industry matters. Because of the excise tax and an extraordinary amount of regulation, the lead agency for the wine industry is BATF of the Department of Treasury. Wine is probably the only agricultural commodity not falling under the purview of the USDA. The BATF represents the United States to the OIV (International Office of Wine and Vine), a powerful and influential group of 37 nations that coordinate regulatory requirements for the international wine trade, developing criteria for product integrity, quality and safety. The OIV is the UN of wine. It is not possible to be successful in the export wine market unless one is active in the OIV. Most member nations send scientists as well as government representatives to the OIV subcommittee meetings. Scientists are welcome to be a part of the official US delegation, but only if we pay our own way. There seems to be no directed effort to ensure that technical areas of discussion are covered by experts from the US. This seems odd to me. I think we should want to at least match, if not exceed, the scientific and technical expertise of the other delegations with our own. I have not yet attended an OIV general meeting, but will do so later this month in San Francisco, and maybe this arrangement will make sense. Since there is no resident expertise in wine or winegrapes at the USDA, being represented by the BATF at the OIV is perhaps fine. However, the principals of the OIV do not understand this situation and wish the Department of Viticulture and Enology would play more of a role in providing

technical leadership for the wine industry internationally. I have attached copies of letters from Robert Tinlot, Director General, and Michel Bourqui, Administrator General of the OIV. If the US wine industry is to become a dominating force in the international market place, the US will have to be a stronger participant in the OIV.

C. Scientific Factors

The USDA through the ARS grants program does not support research, basic or applied, on winegrapes and wine. The reasons for this are multifaceted. In general, the USDA does not support research on commodity processing, which is typically conducted by the food and beverage industries themselves. The research that is industry-financed tends to be short-sighted with immediate goals for a return on the investment. Unless dictated by economic necessity, long-range research is not supported. Wine and winegrape research is somewhat of an exception in that wine and grape producers are supportive of, and recognize the need for, basic research. The major problem is funding. In contrast to the wine industries of other countries, the US wine industry receives no government subsidies. The full cost of production must be born by the sale price to the consumer. Funding of research adds to the cost of the product and reduces market competitiveness.

Secondly, the competitive grants program requires not only that the principal investigator be competitive for funding, but that the organism under investigation also be competitive, meaning the organism must be experimentally tractable, and that progress must be demonstrated in the term of one grant period (typically from 2 to 5 years).

Grapes are possibly the most recalcitrant experimental system known. If a field trial is to be conducted, meaningful data cannot be obtained until five years into the research. All experiments must be replicated in different growth seasons to control for seasonal variability. We typically run field trials for 8 to 12 years in our studies, a time frame incompatible with the current competitive grants schedule.

Many of the emerging molecular technologies that hold such great promise for manipulation of plant materials are totally useless with grape. Grapes are botanically unique and do not serve as a "model system." Information obtained from the study of grapes has little to no spill-over benefit to other commodities or plant systems. For these perfectly legitimate reasons, grape research does not fair well in the competitive grants process.

I do not want to imply that there is something wrong with the USDA competitive grants process, because I do not think that there is. I receive USDA funding for my own research on sugar metabolism in yeast, and I have been a member of the USDA Alcohol Fuels grant panel. I am very impressed and completely satisfied with the way grants are handled, peer-reviewed and priorities set. From my experience the USDA does an excellent job with limited funding. The US has the potential to truly dominate the international agricultural commodities market in both food and fiber. USDA-funded research has played a critical role in the US economy, and will continue to do so in the future. If we can successfully develop renewable fuel resources, we should be a dominating force in that industry as well.

That the system does not seem to work for all crops may require some novel thinking in the creation of new kinds of grant funding operations, such as the establishment of an "orphan" crops grants program to assure that the research needs of all economically important crops are being covered. The French are pouring millions of dollars into grape genome research and the development of molecular technologies for grape. We are essentially doing nothing in this area and we are going to be left behind. In the long run our industries will not be technologically competitive. This kind of very basic, long-term research really needs to be funded at the federal level and evaluated by scientific peer review panels.

In summary, the wine and winegrape industry does not receive much scientific support from the USDA in contrast to other industries, in spite of the fact that the wine industry generates significant tax revenues at both the national and state levels.

II. Impact of the Lack of a Role of the USDA on the Economic Competitiveness of the US Wine Industry

The lack of USDA involvement and support has not prevented the grape industry from attaining the number nine spot in farm gate value nation-wide. This is because the state Agricultural Experiment Stations had the freedom to invest in commodities that were best suited to their own agricultural conditions. It is also because the states themselves invested in research, either directly or indirectly, through the formation of top-flight public research and educational institutions as part of the land-grant universities program. Foreign government investment in grape and wine research greatly exceeds that of the US,

in some cases by an order of magnitude. Yet, we are still very competitive internationally and we are making strong gains in the marketplace. We have made greater strides with significantly less resources. What is the secret to our success? I think it lies in our pairing of teaching and research through the public land-grant university system. The cross-fertilization that this pairing generates benefits both endeavors tremendously. In the case of California, the University of California has been the prime research force behind a very successful agricultural industry. The establishment of mission-oriented departments at major public universities has proven to be a cost-effective and highly productive partnership of government, university and industry all working for the public good.

The Agricultural Issues Center of the University of California, Davis, is in the process of writing a report entitled "The Value of Public Sector Agricultural Research and Development in California." This report details the economic value of research conducted at the University of California for agriculture, in general, and for the wine and grape industries, in particular. I have attached as an appendix to my testimony a draft of the section of this report that presents the case study of wine and winegrapes. As stated in this report, the public sector reaps almost 80% of the cost benefits of agricultural research with the remaining 20% split among growers and processors. Intuitively, this makes sense since all humans must have food to survive. Anything which lowers the cost of our food supply is passed along to all consumers, regardless of socioeconomic standing. Just as anything which raises costs must also be passed along to the consumer, also regardless of socioeconomic standing. Professor Hal Carter, Director of the Agricultural Issues

Center, will provide the Government Operations Committee with a copy of the full report upon its completion.

The value of a highly trained work force must also be considered as essential to the wine industry. In our teaching programs we train students to think critically and to be well versed in the scientific method. All winemakers are scientists as well as artists. To be successful they must learn to work with their own fruit and design the recipe most suitable to optimal quality and style. I have often been asked which is our greatest contribution to the success of the wine industry — our research or teaching program. I cannot say. Both are equally crucial to a healthy and competitive industry.

Agriculture is not like other industries because it is biologically-based not technologically-based. That is not to say technology for improved farming practices and food processing is not important, because it is. But, the industry is not based upon technology as are the computer or manufacturing industries. As a biologically-based industry, agriculture is regularly subjected to what can best be described as the whims and vagaries of Mother Nature. However, on the plus side, as long as there are consumers there will be a ready market for the food and fiber products of agriculture. Agriculture is economically permanent while technology-based industries are finite and transient. They are transient in more ways than one. They can be easily relocated to other countries, or the technology itself readily exported. You can build a manufacturing plant anywhere. The same cannot be said for producing high quality oranges, apples, walnuts or, of course, a fine bottle of Cabernet. I think the agricultural marketing export program

is an excellent investment because of the potential to create a market for commodities that cannot be easily "stolen" by a foreign competitor. We are, therefore, strengthening the US economic base *via* this program. This is particularly significant for the wine industry because the region of production (appellation) very much influences consumer choice and perception of quality. We have the quality but we do not yet control the definition of quality, so the marketing promotion program is critical to US competitiveness in the international market place. If the quality is maintained, and cost of production reasonable to allow competitive pricing, the market will be there forever.

In the absence of USDA funding, the wine and winegrape industries have had to fund both basic and applied research on grapes and wine. The state of California contributed significantly in support of the University of California. Due to our current economic quagmire, and the shift from a "war-time" to a "peace-time" economy, the state of California is being particularly hard hit economically. The budget cuts to agricultural research will have a devastating impact upon this component of our economy. I think the congressional commitment to increased funding for USDA sponsored research should be implemented, making more resources available for agricultural research. If agriculture picks up the tab for research, higher food costs will result. The consumer will have less funds to spend on other goods, resulting in a further downswing in the economy.

The overhead issue on USDA versus NIH and NSF grants also needs to be revisited. For UC, the overhead for NIH and NSF is now approximately 42% while it is 14% for USDA. The overhead allows for development and fostering of graduate and

post-graduate education programs (both critical to strong research programs), and the creation of new scientific collaborations, in addition to covering the costs of building maintenance and utility bills. You don't have to be a genius to figure out that the overhead differential is going to force universities to more highly value NIH and NSF sponsored research over that of the USDA. From my perspective as a principal investigator the 14% cap is simply too low. It does not cover the university's costs in providing a high caliber research environment for agriculture.

III. What should the USDA be doing?

I will begin this section with an apology. I am familiar with many USDA programs but not with all of them. The USDA is a very diverse organization with significant responsibilities in many areas. Some of the suggestions that I am making may, indeed, already be occurring or are in the process of being established.

A. **Provide Leadership in the Development of a National Strategic Plan for Agriculture**

My perception, which again may be incorrect, is that the USDA budget seems to be strongly dictated by political agendas and not by a rational national strategic plan for agriculture. States seem to be in direct competition with each other for resources, and there seems to be an awful lot of micromanaging and pork-barreling. Agriculture is a genuine strength of the US economy, and has remained a strong sector during these recessionary times. I think the USDA should be charged with developing a strategic plan for support of agricultural research and development. If we are to regain economic

strength in the international arena, we must recognize the value of and invest in our agricultural industries.

As we approach the problems and challenges of the next century the USDA is clearly our most critical federal agency. Numerous reports document the unavoidable: population growth is out pacing our food supply. It is just a matter of time before we will be unable to produce enough food for everyone on the planet. I have heard and read suggestions that the USDA abandon, or significantly reduce, efforts on agricultural production and yield as this is perceived as "old-fashioned" and not worthy of modern agricultural research. Well, it had better become fashionable again fast.

The population is projected to double by 2030, less than 40 years away and certainly within the life span of children being born today. The major problems of the next century are going to be food and water supply, and the balance between food and water demands and environmental concerns.

While I have seen many reports describing these problems, I have not read anything detailing solutions, nor even identifying who will be responsible for coming up with the solutions. This is clearly the domain of the USDA, which is why I believe the USDA will become our most important federal agency. I think it is imperative that the USDA provide international leadership in addressing the problem of population versus food supply. Perhaps, first by defining the scope of the problem and those nations and populations at greatest risk from food shortages. Just as we must adopt a global view for protecting the environment, we must take global responsibility for the food supply. I

would hate to see all our environmental gains lost as we confront the problem of being unable to feed our population. We will not be able to convince people to be concerned about what type of planet their great-grandchildren will inherit if their children are starving.

B. Provide Leadership and Balance in the Emerging Debate between Food Safety and Environmental Quality

Another area requiring USDA involvement is the soon to be emerging debate between food safety and environmental quality. We are being confronted with many food and environmental safety issues. Unfortunately, what is perceived as good and "safe" for the environment may not be good or "safe" for our food supply. It could be argued that we are making unrealistic demands for cosmetically perfect fruits and vegetables, simultaneously with the demand for no chemical or pesticide use in the environment. We are operating under the mistaken assumption that "organic" always means "healthy." In many situations it does not.

I have attached to my testimony an article written by Diane Edwards, published by the American Society of Microbiology, about the recent problems with the Milwaukee water supply. The lead content of the Milwaukee water supply was considered to be too high by EPA standards and modifications of water processing were implemented. As a consequence, a pathogen previously removed by the existing treatment process made its way into the public water supply, leading to mass sickness and, in some cases, death from infection. To quote the article, "Well-intentioned efforts to reduce lead by alternative

coagulant treatment could result in a water system unable to block the flow of protozoa into homes and businesses." I wanted to use this article as an example of what can happen if we do not thoroughly evaluate the relative risks and benefits of public health or environmentally driven changes in procedures.

We are facing the same type of dilemma today with pesticide use. Pesticide and chemical use in agriculture needs to be reduced wherever possible and we must strive for a sustainable environment. However, there are relative risks and benefits involved in reducing chemical inputs. The public health danger from natural plant and mold carcinogens can, in some circumstances, greatly outweigh any risk from pesticide residues. Plants are restricted to their immediate environment and, unlike animals, cannot move to avoid pests or disease. As a consequence plants have developed highly sophisticated chemical warfare strategies to eliminate or discourage pests and disease. Some of the "warfare" compounds produced by plants have negative effects on human health. Insects get around the chemical warfare by evolving to be resistant. Molds, on the other hand, retaliate with chemicals of their own. Many of the most potent carcinogens known to man are mold toxins (mycotoxins) and the natural carcinogens of plants, many of which are produced in response to disease or insect attack. The true value of some fungicides is that they stop the chemical warfare between plants and molds, reducing the levels of natural carcinogens in our diet. Often the harvested portion of the plant will look perfectly normal, but contain relatively high levels of carcinogenic substances. Use of some pesticides and chemicals can and should be reduced, while others truly are vital to

food safety. Not all molds produce toxins, and those that do may not do so under all circumstances. Changes in chemical or pesticide use need to be thoroughly evaluated on a case-by-case basis to assess the impact on natural carcinogen content. Breeding for pest or disease resistance may yield plants with increased levels of natural toxins. One of the great benefits of genetically engineering crops for disease or pest resistance is that we will know the exact nature of the change conferring resistance.

Natural carcinogens are a fact of life in our diets, and we need to understand the role they play versus man-made pesticides in disease. The USDA is charged with safeguarding the nation's food supply. This agency should logically play a more visible role in the debate between environmental and food safety, and in making sure the consumer understands the benefits as well as risks of the term "organic."

C. Provide Strong Leadership in Human Health and Nutrition

The NIH provides needed research support and infrastructure for the causes and prevention of disease, while human nutrition research (the foundation of human health) falls under the purview of the USDA. At first glance this may seem illogical, but it does in fact make good sense. We have the view that wine begins in the vineyard and ends in the human body. The same can be said of any agricultural commodity destined for human consumption. Decisions made in the field and during processing will impact the nutritional quality of the final product. NIH can be viewed as focusing at one end of the health spectrum, at the transition between health and disease. The USDA is at the other end of the health spectrum, at the transition between being free from disease and being

in great health with reduced risk of disease. This latter boundary is a function of diet, nutrition and lifestyle. The USDA has done a superb job of defining and establishing health and nutrition guidelines. The problem is the average citizen is not listening. USDA efforts in this area are crucial to reduction in national health care costs and in maintaining a healthy, functional work force. USDA resources should be expanded and enhanced to allow a greater emphasis in this area.

Last August we held a workshop at UCD, sponsored by the USDA, on the topic of the potential health effects of components of plant foods and beverages in the diet. In addition to nutrients required for cell growth and metabolism, plants contain many biologically or pharmacologically active components that display regulatory roles in human metabolism. The role of these plant compounds in health is largely unknown. The purpose of the workshop was to document the extent of our lack of knowledge in this important area.

1. The Role of Ethanol in the Diet

One of the goals of the workshop was to explore the role of ethanol in the diet. It is clear that excessive consumption of ethanol leads to serious health complications, and should be strongly discouraged. However, there are only three sources of metabolic energy (calories) in our diet: glucose (carbohydrate — sugar), fatty acids (lipids) and ethanol. Every single one of them is associated with health problems - glucose (diabetes), fatty acids (oxidative diseases, such as coronary artery disease and cancer) and ethanol

(liver disease and alcoholism). Every single one of them is under attack. If we eliminate all these "problem" energy sources from our diet we'll be dead.

The role of ethanol as a dietary energy source has been largely ignored in the US. We have taken the restrictive view that ethanol is a drug, with only negative effects. The fact is, ethanol is not a drug, it is an energy source, perhaps an important one. Glucose is an energy source which stimulates; ethanol is an energy source which relaxes. If we have retained the ability to use ethanol as a dietary source of energy, then there are probably circumstances under which it should be providing calories. A major factor contributing to ethanol-induced diseases is poor nutrition. Beverages that contain ethanol do not often contain all other nutrients required in a balanced diet. This results in the provision of calories in the absence of other essential components, potentially leading to vitamin and nutrient deficiencies.

The relationship between moderate ethanol consumption and longevity may stem from the optimum diet containing the appropriate mixture of all three metabolic energy (caloric) sources. That optimum mixture is going to depend upon genetic predisposition toward problems such as diabetes, oxidative diseases, alcoholism, and liver disease; upon the amount of energy regularly expended *via* physical exercise and general metabolic rate; and upon other environmental and physiological factors. Excessive consumption of calories (energy sources) is a dietary problem in itself and appears to be a causative factor in disease. Excessive consumption of anything, including water, results in health complications. The key to good health is balance.

The NIAAA has the focus of researching the role of alcohol in disease and in alcoholism. This is a very important area of investigation. I do not think we will ever understand the role of ethanol in disease if we do not understand the role of ethanol in metabolism and diet. The annual budget for the NIAAA to research the negative impact of excessive alcohol consumption is over \$60 million. The annual USDA budget to cover all of human nutrition research is only about \$2 million. If the role of ethanol in the diet and the potential benefits of moderate alcohol consumption is to be studied, it must be funded *via* a normal federal grants program. If the wine industry were to fund this research area, it would be discounted in the popular press as biased regardless of the quality of the science. But, the research needs to be done. We are basing our current view of the impact of moderate ethanol consumption on epidemiological studies. Epidemiology suggests correlations, but a correlation is not evidence of cause and effect — far from it. Heart disease is a major cause of death and health care expense in the US. If we can reduce the incidence of heart disease even by a fraction, we will achieve significant health care savings.

2. The Role of Pharmacologically Active Plant Components in the Diet

Plants contain numerous unknown or poorly characterized chemical constituents. Wine is chemically more complex than human serum. Many of these plant compounds are active in the human body. Some function as natural antioxidants. Oxidative damage is a leading factor in disease. Natural antioxidants are compounds which regulate oxidation reactions and are crucial to the prevention of oxidative diseases such as cancer

and cardiovascular disease. Antioxidants protect against oxidative damage either by controlling the synthesis or activity of the oxidizing agents or by interacting with and neutralizing them directly. Plant foods and beverages, therefore, contain many substances that may be dietarily significant for optimum health. By a plant beverage, I mean a beverage derived from plant materials such as wine, fruit and vegetable juices. The study of the role of antioxidants in health promotion is in its infancy and in need of greater research support and effort.

Ethanol in the diet is protective against cardiovascular disease, although the mechanism of that protection is not known. Ethanol-derived calories do not appear to yield body fat in animal studies, but the relationship in humans between ethanol and fatty acid metabolism is unclear. Recent research conducted at the University of California, led by the late Dean John E. Kinsella, suggested that the phenolic constituents of wine are actually the antioxidant agents protecting against cardiovascular disease. This suggestion has very important implications for the role of antioxidants and other heretofore ignored plant components in the human diet. Wine is one of the most chemically reduced substances in our diet, which means its antioxidants are in the active form, not already reacted with oxidizing agents.

3. The Bridge between Agriculture and Medicine

This entire research area also falls under the purview of the USDA but bridges agriculture and medicine. We are in the process of designing a novel research program at UCD to address the role of plant components, as well as of ethanol, in the diet. We

are launching a collaborative "joint venture" between the School of Medicine and the College of Agricultural and Environmental Sciences to thoroughly explore the role of plant foods and beverages in the diet. The Departments of Internal Medicine, Biological Chemistry, Community and International Health, Neurology and Pathology of the Medical School will be participating, as will the Departments of Food Science and Technology, Nutrition, Pomology, and Viticulture and Enology from the College of Agricultural and Environmental Sciences. This multi-disciplinary research team will be able to cover the full spectrum of the role of plant components in the diet, from identification of the compounds and formation in the field through processing, to the final fate in the human body. The knowledge gained will be instrumental in the design of a healthier food supply and will provide the basis for solid dietary recommendations for the American consumer. We want to go beyond the epidemiological studies to defining true cause and effect.

We are also including a strong program on sensory evaluation and perception of food. Telling people what's good for them is easy; getting them to do it is the real challenge. By understanding what makes certain foods and beverages attractive, we will be able to assist the food industry in designing foods that are both enticing and healthy. If "attractive" can be equated with "healthy," the public will automatically adopt better nutritional habits. We also intend to explore the connection between diet, nutrition and lifestyle. Previous public health efforts have focused on designing the optimum diet and lifestyle. Our goal is to establish dietary guidelines for existing lifestyles, to make recommendations for proper nutrition and diet in the context of what people will actually

do. We hope this program will provide a much needed bridge between medicine and agriculture and emphasize the obligatory connection between reduced risk of disease and diet, nutrition and lifestyle.

IV. Conclusion

In conclusion, the USDA may not have played much of a direct role in the past of supporting the economic well-being of the US wine industry, but that does not mean they should not in the future. They can best serve the industry through the competitive grants program, in providing a source of funds for research on issues pertinent to the wine industry, and in continuing the marketing promotion program. One could argue that the industry should fund all of their own research and international market development and pass the cost along to the consumer. This attitude does not support a vital and healthy industry capable of taking the international market by storm.

Table 1

Top 20 U.S. Crops by Value of Annual Production (averaged over 1989-1991, x \$1,000)			
<hr/>			
1. Corn	18,050,553	11. Apples	1,423,228
2. Soybeans	11,012,199	12. Sorghum	1,285,201
3. Hay	10,484,918	13. Peanuts	1,259,915
4. Wheat	6,842,532	14. Rice	1,115,786
5. Cotton	5,324,154	15. Barley	962,106
6. Tobacco	2,711,945	16. Lettuce	890,328
7. Potatoes	2,414,428	17. Mushrooms	652,052
8. Tomatoes	1,762,320	18. Dry Beans	599,655
9. GRAPES	1,755,029	19. Strawberries	593,226
10. Oranges	1,665,326	20. Almonds	539,798

Source: Crop Values 1991 Summary and Noncitrus Fruits and Nuts 1991 Summary.
Agricultural Statistics Board. National Agricultural Statistics Service, United
States Department of Agriculture (1992).

Table 2

Species, Number of Grants, and Funding Level

Species	Number of Grants	Grant Amount	Percent of Grant Total
Corn	21	\$ 2,642,000	25
Tomato	13	2,387,000	23
Bean	4	270,000	3
Cotton	2	260,000	2
Soybean	3	306,000	3
Wheat	2	176,000	2
Sorghum	1	210,000	2
Barley	1	120,000	1
Alfalfa	3	437,151	4
Pea	2	325,000	3
Cabbage	1	180,000	2
Potato	1	180,000	2
Rice	1	60,000	1
Pepper	1	260,000	2
Brassica	4	318,374	3
Lettuce	1	265,000	3
Poplar	2	250,000	2
Flax	1	150,000	1
Cuphea	1	210,000	2
Carrot	1	118,000	1
Tobacco	2	275,000	3
Pine	3	260,000	2
Chlamydomonas	1	185,000	2
Arabidopsis	7	885,000	8
Cyanophora	1	150,000	1
Total	76	\$10,489,525	104

Note: The total number of grants is 76. The total dollar amount is \$10,498,525. The difference between the total values is due to more than one species reported per grant. Average per grant is \$138,020.

Source: S. McCarthy, 1992, Plant Genome Research Grant Program — First Annual Report, Probe 2:4-5.

Ms. WOOLSEY. Rick Theis. Mr. Theis specializes in wine industry trade association management, as well as marketing and communications. He began working with Sonoma Grape Growers in 1984 and is currently the executive director of the Sonoma County Grape Growers Association.

We are pleased to have you here, Rick.

STATEMENT OF RICK THEIS, EXECUTIVE DIRECTOR, SONOMA COUNTY GRAPE GROWERS ASSOCIATION, SANTA ROSA, CA

Mr. THEIS. Thank you, Congressman Woolsey and Chairman Condit. It is a great pleasure to have you in Sonoma County, an area that produces more award-winning wines than any other region in America.

In these brief moments, I want to express a few thoughts that I think are important. The winegrape industry is similar yet quite different from the rest of agriculture.

First, granted, we are closely linked with wine, a very glamorous image-intensive industry. However, if you are a farmer growing grapes, you are still a farmer; you're subject to the same vagaries of nature as all farmers, drought, pestilence, hail, heat, frost, and even flooding just like farmers almost everywhere else.

Second, Sonoma County winegrapes receive no Federal subsidies, yet the product produced by winegrapes contributes to government revenues. The use of *Vitis vinifera*, winegrapes, is virtually limited to the production of wine. Since they have seeds, they can't be made into raisins. And for grape juice *vitis Labrusca* grapes can be grown more cheaply nearly anywhere to fill the market demand.

Third, there are only a few places in the world that have the right soil and climate to grow great winegrapes, and Sonoma County is one of them. You can't just pick up the vines and move to Iowa or even most other parts of California and produce the quality grapes we do here. Because our grapes make great wine, but also because there is a high demand for land because Sonoma County is a beautiful place to live and located near a major metropolitan area, land costs are very high. Undeveloped land in Sonoma County with agricultural potential ranges from \$15,000 to \$25,000 an acre, compared to average ag land in America between \$700 and \$800 an acre. Vineyards and specialty crops are about the only agricultural products that can survive here.

Fourth, growing winegrapes is one of agriculture's most capital-intensive businesses. You need expensive trellising systems to maximize quality and quantity. Most vineyards need double irrigation systems, overhead for protection against frost and drip to use water conservatively, to control stress and vigor, to produce the best tasting fruit possible. With the vines, this adds another \$10,000 to \$15,000 an acre, bringing the final financial commitment to nearly \$30,000 to \$40,000 an acre.

Fifth, once planted, it takes 4 years before a grower has a crop; 6 or 7 years before the vines reach full maturity. That's quite different than raising corn or alfalfa.

Sixth, mechanization is leading to reduced labor needs and creating more year round, full-time employment. Still, most growers do depend on temporary workers for peak times during the 2½ month harvest period and possibly during a few weeks in the winter.

Larger vineyards must bear the cost of housing temporary workers to ensure a stable, reliable work force during the peak seasons.

Seventh, there is much misunderstanding about wages. Some people believe farm workers are paid minimum wage. That is not true in Sonoma County's vineyards. While there might be an occasional job that pays minimum wage, the industry standard for vineyard work is quite different. Last year, during the crush, the California Employment Development Department reported the average hourly wage paid to farm workers working in the north coast to be over \$8 an hour. And in Sonoma County the going rate was \$10 an hour in early September, rising to \$12 to \$18 an hour in early October.

I find it ironic that some growers tell of people taking leave of their jobs in Silicon Valley and Los Angeles to work the crush. They tell their grower employers they come to Sonoma County to pick grapes for, "the good money."

Eighth, and finally, Sonoma County depends substantially on vineyards for the beauty of the countryside. It contributes to our quality of life. But on a more objective level, the Sonoma County wine and grape industries account for 18 percent of the county's contribution to gross domestic product through primary and secondary spending.

As Congress makes determinations regarding the taxes on wine, allocations to fund services, for things like imported plant materials, and whether the cost of replanting vineyards as a result of pests and diseases, in the immediate case the phylloxera, \$500 to \$800 million in Sonoma County alone, shall be capitalized or expensed, please think kindly of us.

Decisions that may seem insignificant within the Beltway can make the difference between a very beautiful Sonoma County, with about 34,000 acres of vineyards and 140 wineries contributing to the economy while protecting community separators and open space, or just another county filled with housing developments like what we see happening in Solano County now and what already exists in San Jose, developments that place a critical financial drain on the local governments trying to serve them.

Please do help us keep Sonoma County beautiful for the people who live here, for the thousands of visitors who come annually to enjoy our wine, our beauty, the Russian River, Lake Sonoma, the Redwoods and the Pacific coast, and for the many more who share a piece of Sonoma County when they enjoy our wines with family and friends at dinner.

Ms. WOOLSEY. Thank you, Rick Theis.

[The prepared statement of Mr. Theis follows:]

TESTIMONY TO THE HONORABLE GARY CONDIT AND LYNN WOOLSEY
MEMBERS OF CONGRESS

REGARDING USDA'S ROLE WITH REGARD TO THE WINE INDUSTRY

STATEMENT OF RICK THEIS, EXECUTIVE DIRECTOR
SONOMA COUNTY GRAPE GROWERS ASSOCIATION

AS PRESENTED AUGUST 24, 1993

Thank you very much for coming to Sonoma County, an area that produces more award winning wines than other wine growing region of America (Exhibit A). In these brief moments, I want to express a few thoughts that I think are important. The winegrape industry is similar, yet quite different from the rest of agriculture.

1. Granted, we are closely linked with wine, a very glamorous, image intensive industry. However, if you're a farmer growing grapes, you are still a farmer. We are subject to the same vagaries of nature as all farmers -- drought, pestilence, hail, heat, frost and even flooding, just like farmers almost everywhere else.
2. It is important to remember that Sonoma County winegrapes receive no federal subsidy. Yet the product produced by winegrapes contributes to government revenues. The use of *vitis vinifera* (winegrapes) is virtually limited to the production of wine. Since they have seeds, they can't be made into raisins. For grape juice, *vitis labrusca* grapes can be grown more cheaply nearly anywhere to fill the market demand.
3. There are only a few places in the world that have the right soil and climate to grow great winegrapes. Sonoma County is one of them. You can't just pick up the vines and move to Iowa or even most other parts of California and produce the quality grapes we do here. Because our grapes make great wine but also because there is a high demand for land because Sonoma County is a beautiful place to live and located near a major metropolitan area, land costs are very high. Undeveloped land in Sonoma County with agricultural potential is valued at anywhere from \$15,000 to \$25,000 an acre. Compare that to the average value of U.S. farmland of around \$700 to \$800 an acre. Vineyards and specialty crops are about the only agricultural products that can survive here.
4. Growing winegrapes is one of agriculture's most capital intensive businesses. You need expensive trellising systems to maximize quality and production. Most vineyards need double irrigation systems: overhead to protect against frost and drip to use water conservatively to control stress and vigor to produce the best tasting fruit possible. With the vines, this adds another \$10,000 to \$15,000 an acre. The end financial commitment totals \$30,000 to \$40,000 an acre.



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5. Once planted, it takes about four years before a grower has a crop. Six to seven years before the vines reach full production. That's quite different from raising corn or alfalfa.

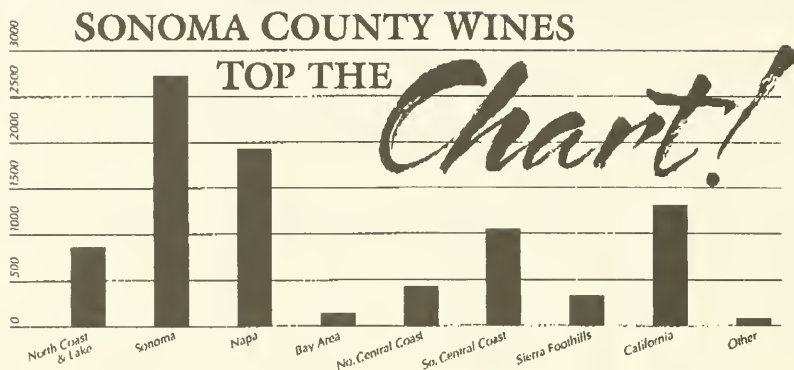
6. Mechanization is leading to reduced labor needs and creating more year around full time employment. Still, most growers do depend on temporary workers for peak times during the two-and-a-half-month harvest period, and possibly during a few weeks of pruning in the winter. Larger vineyards must bear the additional cost of housing temporary workers to insure a stable, reliable work force during peak seasons.

7. There is much misunderstanding about wages. Some people believe farm workers are paid minimum wage. That is not true in Sonoma County's vineyards. While there might be an occasional job that pays minimum wage, the industry standard for vineyard work is quite different. Last year during the crush, the California Employment Development Department reported the average hourly wage paid to farm workers working in the North Coast to be over \$8.00 an hour (Exhibit B) and in Sonoma County the going rate was \$10 an hour in early September (Exhibit C) rising to \$12 to \$18 an hour in early October (Exhibit D). I find it ironic that some growers tell of people taking leave from their jobs in Silicon Valley and LA to work the crush. They tell their grower employers that they come to Sonoma County to pick grapes for "the good money."

8. Finally, Sonoma County depends substantially on vineyards for the beauty of the countryside that contributes to our quality of life. But on a more objective level, the Sonoma County wine and grape industries account for 18 percent of the County's contribution to the Gross Domestic Product through primary and secondary spending. As Congress makes determinations regarding the taxes on wine, allocations to fund services for things like imported plant materials, and whether the cost of replanting vineyards as a result of pests and diseases (in the immediate case of phylloxera 500 to 800 million dollars in Sonoma County alone) shall be capitalized or expensed, think kindly of us. Decisions that may seem insignificant within the beltway can mean the difference between a very beautiful Sonoma County with about 34,000 acres of vineyards and 140 wineries contributing to the economy while protecting community separator areas and open space, or just another county filled with housing developments -- like what we see happening in Solano County now and what already exists in San Jose -- developments that place a critical financial drain on the local governments trying to service them.

Please help us keep Sonoma County beautiful for the people who live here, for the thousands of visitors who come annually to enjoy our wine, and the beauty of the Russian River, Lake Sonoma, the redwoods and the Pacific Coast, and for the many more who share a piece of Sonoma County when they enjoy our wines with family and friends at the dinner table.

The most awards, five years in a row...



Based on a compilation of awards from the best wine competitions of 1992, wines made from Sonoma County grapes won more medals and total points than wines from any other California winegrowing region.

Wines were awarded 5 points for each gold medal, 3 points for silver, and 1 for bronze at the Los Angeles County Fair, Orange County Fair, Riverside Farmers Fair, San Francisco Fair, Children's State Fair, National Orange Show, West Coast Competition and San Diego National Competition in 1992.



SONOMA COUNTY
grape growers

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SHOWING YOU where Robert Young, Angelo Sangiacomo, Bob Hopkins, Julio Gallo and 400 other farmers and ranchers grow grapes. More than 500 vineyards and 120 wineries are pinpointed on four maps. They are: 1. ALEXANDER VALLEY, 2. DRY CREEK VALLEY, 3. RUSSIAN RIVER VALLEY with Green Valley and Chalk Hill and 4. SONOMA VALLEY with Carneros and Sonoma Mountain. Each 24" x 36" full color map is \$10.

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The complete set of five maps is only \$40 and includes shipping, handling and applicable sales taxes.

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Special Projects Unit

Labor Market Information Division



Serving the People of California

CALIFORNIA AGRICULTURAL EMPLOYMENT AND EARNINGS BULLETIN

October 1992

SEPTEMBER 1992

B

TABLE T-E
AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS (1)
NORTH COAST REGION
(IN DOLLARS PER HOUR)

INDUSTRY	SEP 1992	AUG 1992	SEP 1991
TOTAL AGRICULTURAL	7.96	7.42	7.87
TOTAL AGRICULTURAL PRODUCTION/CROPS	7.40	7.28	7.33
TOTAL FRUITS AND TREE NUTS	7.67	7.67	7.80
GRAPES	8.04	8.83	8.46
OTHER FRUITS AND NUTS	6.24	6.27	5.44
TOTAL HORTICULTURAL SPECIALTIES	6.76	6.76	6.98
TOTAL AGRIC PRODUCTION/LIVESTOCK	6.53	6.54	6.78
TOTAL AGRICULTURAL SERVICES	7.70	8.41	8.31

(1) AVERAGE HOURLY EARNINGS ARE NOT HOURLY WAGE RATES; THEY ARE GROSS EARNINGS OF FULL-TIME AND PART-TIME PRODUCTION WORKERS DIVIDED BY TOTAL HOURS FOR PRODUCTION WORKERS.

TABLE II - CROP ACTIVITY BY COUNTY

1	2	3	4	5		6	7	8	9
				APPROXIMATE STARTING DATE OR % COMPLETE	APPROXIMATE PEAK PERIOD DATES				
	ACTIVITY	ACREAGE			FROM	TO	ESTIMATED PEAK LABOR REQUIRE- MENT	APPROXIMATE ENDING DATE	ESTIMATED NUMBER WORKING (MANWEEKS)
NAPA									
	Harvest	30,000	45%		10-Oct	10-Oct	3,000	7-Nov	1,450
							4,700		2,500
									3,950
ALL OTHER AG COUNTY TOTAL									
SONOMA									
	Harvest	5,000	50%		15-Aug	26-Sep	1,220	10-Oct	900
	Harvest	33,000	45%		5-Sep	10-Oct	3,000	17-Oct	3,000
							6,600		6,600
									10,500
ALL OTHER AG COUNTY TOTAL									
SAN JOAQUIN VALLEY									
FRESNO									
	Harvest	25,780	30%		7-Sep	31-Oct	350	31-Oct	350
	Harvest	38,900	90%		3-Aug	12-Sep	3,800	10-Oct	2,580
	Harvest	343,400	28-Sep		28-Oct	14-Nov	880	19-Dec	INA
	Harvest	1,690	50%		31-Aug	19-Sep	100	10-Oct	100
	Harvest	43,600	99%		29-Jun	11-Jul	120	19-Sep	50
	Harvest	162,000	95%		24-Aug	12-Sep	19,000	31-Oct	9,500
									\$4.25-\$5.00 hr./14-25¢ per tray/\$30.00-\$35.00 per thousand to turn and roll trays
									\$4.25-\$5.00 hr./\$1.25 \$2.25 a box
Grapes, Table									
	Harvest	8,580	70%		24-Aug	19-Sep	2,300	14-Nov	2,300

Continued on next page

Information Not Available

TABLE II - CROP ACTIVITY BY COUNTY

1	2	3	4	5		6	7	8	9
COUNTY AND CROP	ACTIVITY	APPROXIMATE ACREAGE	APPROXIMATE STARTING DATE OR % COMPLETE	APPROXIMATE PEAK PERIOD DATES		ESTIMATED PEAK LABOR REQUIRE- MENT	APPROXIMATE ENDING DATE	ESTIMATED NUMBER WORKING (MANWEEKS)	APPROXIMATE WAGE RANGE CURRENTLY REPORTED
				FROM	TO				
NALZA									
ALL OTHER AG									
COUNTY TOTAL									
						2,900		2,900 2,900	
SONOMA									
Apples	Harvest	5,000	98%	15-Aug	26-Sep	1,230	20-Oct	100	\$4.75 hr.
Grapes, Wine	Harvest	33,000	100%	5-Sep	10-Oct	3,000	17-Oct	1,050	\$12.00-\$18.00 hr.
ALL OTHER AG									
COUNTY TOTAL									
						5,600		4,400 5,550	
SAN JOAQUIN VALLEY									
FRESNO									
Almonds	Harvest	25,780	80%	7-Sep	31-Oct	350	31-Oct	300	\$4.25-\$5.50 hr.
Apples	Harvest	1,420	95%	31-Aug	26-Sep	400	24-Oct	250	\$4.50-\$4.60 hr.
Cotton	Harvest	343,400	20%	26-Oct	14-Nov	880	19-Dec	430	\$4.25-\$5.00 hr.
Grapes, Table	Harvest	8,580	95%	24-Aug	19-Sep	2,300	14-Nov	1,120	\$4.25-\$5.00 hr./\$1.25 \$2.25 a box
Hay, Alfalfa	Harvest	79,300	95%	3-Aug	12-Sep	420	24-Oct	130	\$4.25-\$5.00 hr.
Letenue, Fall	Thin, Hoe	10,100	90%	31-Aug	24-Oct	1,030	24-Oct	980	\$4.25-\$5.50 hr.
Letenue, Fall	Harvest	10,100	Start	19-Oct	19-Dec	1,470	26-Dec	950	\$5.00-\$8.00 hr.
Olive	Harvest	1,320	50%	12-Oct	31-Oct	290	21-Nov	290	\$4.25 hr/\$1.75 a 5 gal bucket

Fresno continued on next page

INA Information Not Available

R Revised

• Next Activity

Ms. WOOLSEY. Joseph Rollo, director of the international department of the Wine Institute, the industry association that represents over 400 wineries. The Institute manages the Market Promotion Program for the California Wine Industry.

Thank you for coming, Joseph.

STATEMENT OF JOSEPH A. ROLLO, DIRECTOR, INTERNATIONAL DEPARTMENT, WINE INSTITUTE, SAN FRANCISCO, CA

Mr. ROLLO. Thank you, Chairman Condit, Congresswoman Woolsey. Thank you for the opportunity to speak in support of the Market Promotion Program.

We have had testimony already that describes the programs success. In my written testimony, I have included some statistics that I won't go into now that support the success of the program. I will just mention two facts that I think are important that haven't been mentioned by others. One is that last year the industry shipped approximately 7 percent of its production overseas. And we got \$175 million worth of foreign exchange for those wines. Also about 35 million gallons that were sold overseas could not be here in competition with other wineries. So it is 7 percent of our production. Export markets therefore are a very important customer market segment.

The second point I would make is that there's considerable potential remaining. We have penetrated some major markets in just a minor way. So there is a lot more that can be done and needs to be done.

What I would like to mention this afternoon are three of the reasons why the Market Promotion Program has been a success for this industry.

The first that has been mentioned is that it does counter unfair trade barriers. That is something that we really have to look at. The EC support for their industries, our primary competitors, was budgeted last year in the amount of \$2 billion, significant. They have been—the wineries of France, Germany, Italy, Spain, have been promoting their products for over 50 years in foreign markets; and it is no wonder that those products are known and very well known by buyers around the world. Those buyers are relatively unfamiliar with our products. We have a lot of catching up to do.

There are also many markets that create trade barriers that don't allow us in. These countries create—protect their markets. For example, there are high taxes and tariffs in Japan, in Taiwan, in Mexico. There are discriminatory distribution policies in many countries and licensing restrictions in a lot of Latin America where we cannot sell our wines. And the Market Promotion Program allows us to go in and promote our products in those countries.

The second point I would like to make about the MPP is that it does require industry and winery commitment. And I think that is important. And a branded program is important. It is a matching funds program. Each winery puts in \$1, gets back 50 cents.

In the industry generic promotion, FAS requires that the industry have a contribution of a minimum of 5 percent of the total budget so they can properly administer and manage the program. So that is another contribution by the industry that is required.

And I think both of these contributions are really important. It is not a program where we are given money and a year later somebody says, "how did you do with it?" It is a program that requires commitment on our part as well as the government's part.

There have been a number of efforts this year to create some reform of the program, and we have backed a number of those reforms. One that we backed was one that would focus the program on small businesses, and I testified at Congressman Penny's hearing, to that effort. Certainly most of the wineries—we have 98 wineries in our program this year—most of those wineries are small business by anyone's definition.

We concur with all of the comments that have been made earlier today regarding the administrative requirements of the program that are, without a doubt, extremely onerous.

Also we believe that for small businesses and small wineries, we definitely have to liberalize the expenses that are allowed under the program. It has become an advertising intensive program. I don't think it was meant to be that way. And it should be changed.

So we would definitely agree with the focus toward small businesses, but we feel that the focus ought to be in terms of liberalizing the expenses allowed and cutting some of the administration. The program has required both industry and company commitment, and I think that is important and contributed to its success.

And the third and last point about the MPP is that it has created a government and a private industry partnership. I think one aspect of it that is important of course is the funding. Without the funding, I think it would certainly not be as important to us. On the other hand, there is more than just the money. Our organization and individual wineries work with FAS agricultural trade offices overseas.

I certainly hope in any restructuring of USDA that these offices would continue to get funding and support. They have been very valuable to us, both for information and support in foreign countries. The trade show program, through the high value department at FAS, has also been very helpful to us. We also work with USDA in negotiating reduction of trade barriers and with Commerce and the State Department in putting on programs in foreign countries.

We started with MPP, but this program has created a government and private industry partnership that I think is more important than just that particular one single program. I would like to make a plea for more funding of the MPP. There are more participants every year; \$100 million just isn't going to do it. Last year our sales grew 20 percent. Obviously any time your sales grow 20 percent every year over the last 4 or 5 years, the expenses necessary to support these sales increases. And the program has been cut by 25 percent and 30 percent the last 2 years.

We believe that the MPP is a government program that works. I think there are a lot of programs where there is some uncertainty as to whether they are paying back what they are putting in. I think there is no doubt about the performance of this program and the performance of this industry. The MPP has allowed our industry to compete in world markets against stronger competitors. It has increased jobs. It has added new markets for our products. We are just in the early stages of our export growth, with considerable

potential ahead. We need your continued support to increase the funding for this vital program.

Thank you.

Ms. WOOLSEY. Thank you, Joe.

[The prepared statement of Mr. Rollo follows:]

STATEMENT OF JOSEPH A. ROLLO
DIRECTOR, INTERNATIONAL DEPARTMENT
WINE INSTITUTE

IN SUPPORT OF THE
MARKET PROMOTION PROGRAM

FOR THE HOUSE SUBCOMMITTEE ON INFORMATION, JUSTICE,
TRANSPORTATION, AND AGRICULTURE

Tuesday, August 23, 1993

My name is Joe Rollo. I am the Director of the International Department of the Wine Institute, the industry association representing over 400 California vintners who produce over 80 percent of the wine in the United States. The Institute administers and manages the Market Promotion Program for the California wine industry.

The MPP has been instrumental in providing motivational and financial support for the U.S. wine industry to enable it to compete in foreign markets. Prior to 1986, our industry exported to only a few countries. The largest market was Canada. Exports consisted predominately of inexpensive bulk wines. Export sales in 1985 were \$27 million.

From this base, with the support of the MPP, industry sales in 1992 grew to \$174.7 million and now represent approximately 7% of total domestic production. This level is still far from our potential as we have only begun to penetrate many major wine markets.

Why does the MPP work for our industry? I would like to offer three reasons:

1. The MPP counters trade barriers. Our industry competes with over 40 wine producing countries, but most of our competition is with the wine producing members of the European Community. These industries enjoy substantial subsidy programs that protect local growers and encourage exports. In 1992, the budget for wine subsidy programs in the EC exceeded \$2 billion.

These government-supported programs have enabled the EC's wine industries to develop and execute marketing and educational programs around the world for over 50 years. It is little wonder, therefore, that most of the world's wine buyers have sound knowledge and experience with European wines, but are unfamiliar with wines from California. Without the MPP, our industry could not afford to conduct export promotional and educational programs that allow us to compete with foreign wine producers.

In addition to the EC subsidies, our industry faces a myriad of trade barriers in foreign markets. These include registration and certification requirements in many countries, restrictive distribution policies in Japan and other countries, discriminatory price charges in Canada in violation of the Free Trade Agreement, discriminatory taxes in Taiwan, and licensing procedures in Brazil, Chile, and Argentina that restrict imports.

2. The MPP requires industry and company commitment. For companies, the MPP requires matching funds and reimburses 50% of certain eligible promotional expenditures. It is important to note that winery export expenses for product testing and analysis, certification requirements, special labelling requirements, travel, product samples, and administration are not eligible expenses. These types of expenses and investment must all precede market promotion.

Industry generic promotion also requires industry investment. FAS has required a 5% contribution level of administration and management resources in order to apply for MPP funds. This level of contribution is scheduled to change to 10% with the 1994 budget reconciliation bill.

This requirement for industry and winery commitment assures that funds will be spent carefully because it is also our money that is being invested.

3. The MPP is a government partnership. There is more to the MPP than simply funding. Our industry works with FAS and their Agricultural Trade Offices overseas, with their High Value Trade Show Program, with USTR in negotiating the reduction of trade barriers, and with the Departments of Commerce and State in foreign market promotion.

Because of the MPP, we have built a strong government/private industry partnership that has worked to increase exports and create jobs. Our industry produces a competitive product, but we need a competitive government support program to achieve success in foreign markets. This government support program includes trade negotiation, overseas assistance, and funding for promotional and educational programs.

However, despite the success that our industry, and other industries, have had with the MPP, the program has received extensive budget cutbacks and unfair criticism from the media. We have supported efforts of program reform and we hope that the MPP can be restored to its former funding level of \$200 million.

One of the reform efforts this year was to focus the program on small businesses. Our branded program includes over 105 wineries in 1993. The majority of these wineries are small businesses, by anyone's definition. We have continuously lobbied for redesign of the MPP so that it would support small businesses more effectively.

More liberal rules for eligible expenses would improve the ability of small wineries to take advantage of this program. The problem for our small wineries is not the funding levels, it is the rules and administrative requirements of the program itself. We will continue to actively lobby for more liberal rules for small wineries and higher funding levels.

We believe that the MPP is a government program that works, that has effectively supported the export success of our industry, and that needs budgetary increases. The MPP has allowed our industry to compete in world markets against stronger competitors, has increased jobs, and added new markets for our products. We are just in the beginning stages of our export growth with considerable potential ahead. We need your continued support to increase the funding for this vital program.

(Enclosed with this testimony are details of the wine industry's export success with the MPP)



Wine Institute

WINE INSTITUTE USDA MARKET PROMOTION PROGRAM (MPP) IS CRITICAL IN RESPONDING TO FOREIGN GOVERNMENT SUBSIDIES AND OTHER TRADE BARRIERS

TALKING POINTS

BACKGROUND:

- o USDA's TEA/MPP has significantly assisted the California wine industry in competing in foreign markets. Prior to the passage of the 1984 Wine Equity Act and the establishment of TEA/MPP, the California wine industry was not able to significantly export its quality wines. As a direct result of TEA/MPP funding, exports of U.S. wines have risen by \$150 million in value since 1986 to almost \$175 million in 1992.
- o Increased export sales have translated into more U.S. jobs, industry competitiveness and a decrease in the industry's negative foreign balance of trade.
- o MPP funding allocation has undergone serious criticisms by the U.S. Congress. Among the concerns that have been raised are:
 - * the general administration of the program;
 - * the level of funding allocated to large firms;
 - * funding for brand-name products; and,
 - * the strategic importance of high value agriculture products promotion compared to manufactured goods promotion.

Program reforms are being considered by Congress at the present time and Wine Institute is prepared to participate in the debate over those reforms.

WINE INSTITUTE'S OBJECTIVE:

- o The objective is to maintain U.S. government assistance, including MPP type programs, for wine exports. While efforts by the U.S. Government to remove barriers facing wine exports are critical, the allocation of MPP funds to wine exports is vital to the California wine industry's market access efforts overseas.

REASONS FOR MAINTAINING MPP ALLOCATION FOR WINE INSTITUTE:

1. Impact of Program on U.S. Wine Industry's Export Performance

- o MPP funds have allowed U.S. wine producers to enter into foreign markets that they would otherwise not approach. Without MPP funds, the California wine industry will be unable to finance its export promotion efforts in many overseas markets and will be unable to compete against its European and other foreign competitors which heavily subsidize their wine exports or otherwise impose substantial trade barriers.
- o Since 1986, U.S. wine export sales have increased over 530% in value. During the period 1986 through 1992, Wine Institute received approximately \$56 million in TEA/MPP matching funds which have helped support approximately \$537 million in U.S. wine export sales. (See Attachment.)
- o For every \$1 expended under MPP, wine export sales have increased \$10 on average which is significantly above the average return for agricultural products (reported to be between \$2 and \$7). Such successful MPP allocation demonstrates the necessity for and effectiveness of the program for the U.S. wine industry despite substantial trade barriers in foreign markets.
- o Because wine is a value-added product which requires manufacturing and significant marketing investment, increased wine export sales translate into greater U.S. jobs and supporting economic activity.
- o TEA/MPP has allowed the number of export-oriented wineries to increase almost four-fold – from 36 to 135 since 1986.
- o Because of TEA/MPP, Wine Institute has invested substantially in administrative and management resources to support exports. Generic marketing activities have expanded to 16 foreign markets. With the exception of some brand promotion in the United Kingdom, there was no U.S. wine promotion in 1984. Before the TEA/MPP, there was no wine association promoting U.S. wine exports and no generic promotion of U.S. wines.
- o As a result of TEA/MPP, wineries have developed new overseas marketing efforts. These programs are still in a precarious stage of infancy. Even greater U.S. government support is needed to sustain such efforts.

- o The nature of the industry requires substantial investment in marketing activities (e.g., mass communications, personal selling and education) for successful foreign market penetration. Wine export promotion efforts include expenses which are not covered by MPP funds (e.g., travel, overseas sales organizations, product sampling, etc.).
- o Because of U.S. government support, both large and small wineries are encouraged to enter export markets.

2. Significance of Large Company Participation in the Program

- o MPP does not provide matching funds for many of the major expenses incurred in exporting to new markets. Large companies target the mass market, which requires significant personnel and logistical commitment on a long-term basis. Participation in MPP type programs requires commitment by an industry – the larger the company, the larger the commitment.
- o Large companies establish positions of strength in foreign markets which, in turn, allow smaller companies to enter and gain niches.
- o The purpose of MPP is to promote U.S. agricultural products overseas. By allocating MPP to wineries – particularly large companies which can better target mass markets and sell large quantities – the U.S. Government has helped U.S. wine grape growers to participate in export markets. Wineries in California own only about 12% of the wine grapes crushed each year; the remaining 88% is purchased under contract from thousands of grape growers.
- o Because large companies do not need export markets for survival and because exporting demands significant financial investment, the large U.S. wineries would not have entered into export markets without government assistance. Prior to 1986, they chose to focus on developing domestic market share where profits were higher (despite low exchange rates). MPP funds have encouraged them to seek foreign market share and develop the U.S. industry's international competitiveness.
- o The American food and beverage industry has created and established brand names that are a major competitive strength. The long-term benefits of brand-name recognition should be realized by allowing the large companies that own these brands to invest in their international development. While the U.S. has competitive products, it needs to

develop a competitive edge in world markets. Because of their mass marketing ability, large companies play a key role in developing and maintaining U.S. competitiveness worldwide. To this end, government export promotion assistance to large companies is vital.

3. Foreign Government Support Given to U.S. Wine Industry's Competitors – EC Subsidies

- o The U.S. wine industry receives no production subsidies from the U.S. Government. MPP is not considered a subsidy; rather, it is an export promotion program. No funds from this program may be used to lower the price or cost of the product. As an industry without subsidies, the U.S. wine producers/exporters are at a competitive disadvantage vis a vis their foreign competitors – especially the EC (their largest competitor).
- o EC competitors are heavily subsidized through "export refunds" and domestic price support programs that allow EC wine producers to lower costs, absorb high tariffs and otherwise overcome barriers that restrict sales for U.S. producers. Export refunds allow EC wine producers to outsell their competitors on the basis of lower export prices (often below cost).
- o Total EC subsidies to the wine industry exceed \$2 billion annually. For fiscal year 1992, an estimated \$2.3 billion was budgeted for the wine sector. Export refunds that enabled EC wine producers to lower prices were budgeted at \$74.4 million for the same period. These figures do not include the subsidies granted by individual EC countries to their respective wine industries.
- o In 1991, the EC spent approximately \$69 million in export refunds alone to the wine sector, while the U.S. spent only \$15 million in MPP funds. For 1992, the EC increased its export refund budget outlay to \$74.4 million, while U.S. MPP funds were decreased to \$14.3 (and further decreased to \$11.7 for 1993).
- o Without MPP funds, the U.S. wine industry (both large and small wineries) cannot continue to compete successfully for market share against its European competitors.

4. Other Foreign Market Trade Barriers

- o The U.S. wine industry must also compete for foreign market share against locally subsidized wine industries in other countries such as Taiwan, Korea and Canada.
- o Despite past negotiating efforts of the U.S. Government under the Wine Equity Act and Uruguay Round, U.S. wine export sales continue to face severe market access impediments in major wine markets. Restrictions include but are not limited to:
 - discriminatory monopoly production and taxes in Taiwan;
 - discriminatory price charges in the Canadian provinces of Ontario, British Columbia and Quebec (despite the U.S.-Canada Free Trade Agreement);
 - restrictive health and sanitation requirements in Mexico and Venezuela; and
 - licensing procedures in Brazil, Chile and Argentina.
- o In light of these barriers, the potential elimination of MPP funds for the U.S. wine industry would seriously threaten its ability to maintain wine export sales.

CONCLUSION

- o The MPP should be funded as authorized.
- o Developing participation criteria should not restrict large company or branded product eligibility.
- o Wine exports would not have occurred, or be increasing, without the support of the MPP to assist in combatting foreign competition.

ATTACHMENT

**WINE INSTITUTE
USDA TEA/MPP RESULTS
\$ million**

<u>FISCAL YEAR</u>	<u>TEA/MPP FUNDS</u>	<u>%CHANGE</u>	<u>EXPORT SALES</u>	<u>%CHANGE</u>
1985	—	—	27.6	—
1986	4.8	—	34.9	26
1987	2.6	46	60.8	74
1988	3.0	15	85.3	40
1989	7.0	133	98.1	15
1990	9.0	29	125.9	28
1991	15.0	67	146.1	16
1992	14.3	-05	174.7	20
1993	11.7	-18	—	—

Total TEA/MPP Support to Wine Institute: \$67.4 million

Without TEA/MPP, export sales would likely have been flat, at a level about \$27 million per year. Therefore, the export sales value during the period 1986 to 1992 in excess of \$27 million per year – i.e., \$537 million – represents the real return to the industry of these export promotion programs.

Ms. WOOLSEY. Our final member of the panel today is Mr. Robert Hartzell. Mr. Hartzell joined the California Association of California Winegrape Growers in 1978 and currently serves as the president. He has a Bachelor's degree in plant science from the University of California at Davis. He is also the former deputy director of the California Department of Food and Agriculture. And he owns a vineyard in Lodi, CA.

Thank you for being with us today.

STATEMENT OF ROBERT P. HARTZELL, PRESIDENT, CALIFORNIA ASSOCIATION OF WINEGRAPE GROWERS, SACRAMENTO, CA

Mr. HARTZELL. Thank you, Mr. Chairman, Congressman Woolsey. First let me also thank you for holding this hearing. The California Association of Winegrape Growers represents growers on State, national, and international affairs from all 33 of the States' winegrape producing counties.

As requested, I will focus my remarks on the viticulture-related research funding, the 1990 farm bill study, and the establishment of a wine desk.

The latter two, though, I am not going to address orally. They are in my written testimony, and you have that.

Before getting into my comments, however, I want to come back to something Joe Rollo just said about the level playing field and the level of subsidies in the European Community that we have to deal with. They do have an export subsidy program. The recipient of those funds is not suppose to ship those products to North America. Yet, right now, this fall, we are dealing with between 80,000 and 85,000 grape tons, equivalent of grape concentrate, that have come into the Central Valley of California from Spain, through Sweden.

Now, to give you perspective, that 80,000 to 85,000 tons, Sonoma County produced 148,000 tons that were crushed last year. So that is a big quantity of Spanish grapes, so to speak, that have been dumped in the middle of Madera County within the last 6 months, using the EC subsidy. Now we are looking into why and if it is legal or not.

Joe talked about the significance of that subsidy, and I thought that would emphasize it.

As Linda has already pointed out, I want to further emphasize that grapes are the ninth largest crop in the United States based on field value. California is the leading grape producing State, representing about 90 percent of the U.S. grape production, from just under 700,000 acres of vineyards. The production of between 425,000 to 435,000 of these acres is crushed for wine or grape juice concentrate.

In 1992, there were 3.1 million tons of grapes crushed in the State, and they were valued at over \$1 billion at the farm-gate value. My point is that grape production is very important nationally, and ranks as the top fruit crop in California, yet we will receive only \$100,000 for phylloxera research and a like amount for virus and virus-like disease research from USDA. And these appropriations were just approved in conference committee a few weeks ago. Now some of our friends from USDA may want to clear me

up on any additional funds. Those are the funds that I know about. So that is \$200,000.

Further, I was recently surprised to learn that there are no Hatch Act funds flowing to the Department of Viticulture and Enology at the University of California Davis. The funds originate at USDA but are no longer available to researchers working on problems of the California wine and grape industries.

Nationally, there needs to be more USDA research funding for grapes, as farmers in other States, I think 43 now other States, are learning to grow grapes in response to USDA's programs encouraging more value-added crops and trying to get growers to make the transition from the traditional program crops such as corn, wheat, and soybeans, into higher value crops.

Therefore, I think more grape research can be substantiated throughout the country, whether it be at UC Davis or Cornell or wherever.

Now I want to tie these comments about the need and justification for increased research funding to the fact that we grape growers are contributing more to U.S. Government revenue than any other agricultural specialty crop, largely due to the impact on us of the excise tax on wine. And let me explain.

In 1990, the Congress increased the table wine excise tax by 529 percent. It went from 17 cents a gallon to \$1.07 a gallon. The reality is that that increase has turned out to be a tax paid by grape farmers. Here's how it works: During the Congress—during the time Congress was debating the increase, I kept hearing throughout the Halls of Congress the hated words "sin tax." And \$1.07 a gallon is only 21 cents per 750 milliliter bottle, surely a consumer who can pay \$12 to \$15 for a bottle of wine can afford another 21 cents.

Now here's the reality: The \$1.07 a gallon is paid to the Department of Treasury by the winery at the time the wine is removed from bond. Now the winery can do one of three things to recover this additional cost. It can pass that cost forward to the consumer through an increase in the price of wine, it can absorb that cost internally within the winery itself, or it can reduce the price it pays the farmer for the grapes they purchase. I don't know of any other ways they can pass that or absorb that cost.

Our experience is that the latter is what occurs. First, because a business that tries to absorb these kinds of costs isn't around long, and we know we've got small wineries here on the north coast that are in dire financial straits; second, with recession, an extremely competitive retail wine market, that is extremely price sensitive, passing the costs forward to the consumer isn't working like it has sometimes in the past. That cost will flow kind of like water, where the resistance is least. So, therefore, the Federal tax is passed back to the grape farmer.

Now let's look at what that amounts to, to a farmer. \$1.07 a gallon at 170 gallons to the ton, amounts to \$181.90 a ton if it were all passed back to the farmer. At 7 tons the acre, that's \$1,273.30 an acre. Now that's a big difference between the 21 cents for 750 milliliter bottle that you tended to hear about when Congress was debating the excise tax increase. I don't think most in Congress re-

alize that this has the ability to get back to the farmer through reduced grape prices.

Now it's the harvest of 1993, and what were the headlines on last week's Chronicle's Business Section? "Wine market collapses." And you've got it there in your material. "Big wineries drive down the prices." I submit that we grape growers are taking the brunt of the excise tax action Congress took beginning in 1991.

If you think back to the scenario I just went through, with the pressures the wineries are under, now it's our turn in the barrel. Saturday morning I received a distress call from a grower in Kingsburg. He was offered \$150 a ton for his grapes. His water costs are escalating; his property taxes are escalating; and he was making the point that, with the excise tax load figured in, the government at all levels is making more money on his labors and he is losing money. At \$1,500 an acre gross, the excise tax portion alone, if it were all passed back to him, would be \$1,200.

My message on USDA research funding is that we can make a very strong case that grape growers and wineries are being short-changed on the research funding from USDA. We should be receiving a larger share of ARS funds than we are now based on the relative importance of grapes to all U.S. produced crops. Again, we're No. 9. And because of the revenue we contribute to the U.S. Treasury, to a degree through the excise tax.

To followup, finally, on the wine desk, we need a strong agricultural advocate within our government structure. We ask that USDA help us in every way they can to tell our story. Perhaps that's through a wine advocate or the wine desk.

Thank you.

Ms. WOOLSEY. Thank you, Mr. Hartzell.

[The prepared statement of Mr. Hartzell follows:]

Testimony of Robert P. Hartzell, President
California Association of Winegrape Growers

"The role of the U.S. Department of Agriculture
in helping maintain an economically
healthy and competitive wine and winegrape industry
in the United States."

before the
Information, Justice, Transportation and Agriculture Subcommittee
Government Operations Committee

Rohnert Park
August 24, 1993

The California Association of Winegrape Growers is the statewide organization that represents winegrape interests before the Congress, the legislature and on industry-wide issues between growers and vintners. Our members are located in all 33 of the state's winegrape growing counties and represents about 65% of the state's grape tonnage crushed for wine and concentrate.

I will focus my remarks on:

1. Viticulture-related research funding.
2. The 1990 Farm Bill study.
3. The establishment of a wine desk.

VITICULTURE-RELATED RESEARCH FUNDING

I think it is important to point out that grapes are the 9th largest crop in the United States based on field value. California is the leading grape producing state representing about 90% of U.S. grape production from just under 700,000 acres of vineyards. The production of about 425-430,000 of these acres is crushed for wine or grape juice concentrate. In 1992 there were 3.1 million tons crushed with total value slightly over one billion dollars.

My point is that grape production is very important nationally, and ranks as the top fruit crop in California -- Yet we will receive only \$100,000 for Phylloxera research and a like amount for virus and virus-like diseases research from USDA -- and these appropriations were just approved in conference committee four weeks ago.

Further, I was recently surprised to learn that there are no "Hatch Act" funds flowing to the Department of Viticulture and Enology at University of California, Davis. The funds originate at the USDA but are no longer available to researchers working on problems of the California wine and grape industries.

Nationally, there needs to be more USDA research funding for grapes as farmers in other states try to learn to grow grapes in response to USDA's programs encouraging more "value added" crops and a transition away from "program" crops such as corn, wheat and soybeans.

My message on USDA research funding is that we can make a very strong case that grape growers and wineries are being short changed. We should be receiving a larger share of ARS funds than we are now, based on the relative importance of grapes to all U.S. produced crops.

1990 FARM BILL STUDY

The 1990 Farm Bill Wine and Winegrape Industry Study was authorized, but never funded. The study was an attempt by House Agriculture Committee Chairman Kiki De La Garza to encourage USDA to become more interested and involved in the wine and winegrape industries.

The Chairman is very aware that our wine and grape industries are a very legitimate part of American agriculture even though, for the most part, our activities are largely regulated by the Department of Treasury and the Bureau of Alcohol, Tobacco and Firearms. I believe his concept is that BATF should deal with taxation and similar functions, but that USDA should be more involved in the viticultural and enological aspects of the business. After all, wine in almost all other countries, falls under the jurisdiction of the Ministry of Agriculture.

Just a few years ago, Chairman De La Garza advocated establishing a separate wine/winegrape subcommittee of the House Agriculture Committee, but that idea apparently became mired in too much debate and the concept never went further.

The area where I feel USDA can be most helpful to grape farmers is to fund research into disease, pest and other production problems. I was pleased to learn that there is currently work underway at ARS Fresno to focus some work on grape rootstocks with resistance to Phylloxera.

In addition, timely production information and the economic outlook for wine and concentrate production in major producing countries would be very useful to our industry.

ESTABLISHMENT OF A WINE DESK

We would welcome a wine/winegrape person at USDA to specifically address our industry's issues. Before his retirement six or seven years ago, William Doering with FAS really filled that role very effectively.

He knew wine and he made a point of knowing grape producers and wine makers and finding out what's going on in the industry. Bill was very highly respected by international wine and winegrape organizations and regulators, and because of his integrity and depth of knowledge, he helped resolve and conclude most difficult wine accords with the European Community.

Many of us sense an attitude at USDA that, if it's not a program crop such as corn, wheat, soybeans, cotton etc., it's really not very important. I'm sure I speak for many specialty crop producers on this issue. We are most fortunate that for the last several administrations, the Secretary or Deputy Secretary has been from a western state and therefore understands the issues and problems we have as specialty crop producers.

I think a person specifically following wine would be particularly helpful given the situation most of us producing specialty crops face when dealing with policymakers at USDA in Washington.

CONCLUSION

Wine and grapes are agricultural products. I believe our industry would benefit considerably from closer association with the U.S. Department of Agriculture. While wine is regulated by the Bureau of Alcohol, Tobacco and Firearms both grape growers and wine makers need to be recognized as producers of agricultural products.

Mr. CONDIT. Thank you all very much. You did a great job. If you would bear with us just for a few more minutes, we have a series of questions that we want to ask you. And if for some reason you want to pass on it and send your response to it later in writing, you are welcome to do that as well. We want to try to be as accommodating as possible.

I would like to—maybe we could—I hope when we ask these questions, can you—their response—can you hear, so they don't have to walk back up again? If you can speak loud enough, maybe the people in the audience can hear as well. I want to just go back for just a quick moment on the MPP program; and, Mr. Rollo, I would like to maybe ask you a couple questions.

You made reference that the wine institute supports the program with changes. You don't have to do it today, but if the changes haven't already been made, if you have specific changes, we would certainly like to have a copy if the institute is on record with specific changes. We would like to have those. Such as we have heard reference made to this afternoon that we think it ought to be restricted to small business. But no one has really said what small business is. And when we get to Congress, I can assure you everyone there will have a definition of what small business is.

This program is under attack in Congress and those of us who think it is a good idea, those of us who think for one time we found a program in the Agricultural Department that has a pay back, we have got to have accurate information and accurate suggestions. So if the wine institute has specific changes they support, it would be helpful.

You are welcome to respond now. If not, you can——

Mr. ROLLO. No, I'd be happy to send that to your office.

[The information follows:]

Mr. Chairman, Members of the Subcommittee, my name is Joe Rollo and I am the Director of the International Department at the Wine Institute, the industry association representing over 400 California vintners who produce 80 percent of the wine in the United States. The Institute manages the MPP for the California wine industry. All wines must be 100% from California in order to qualify for our program.

I appreciate this opportunity to speak about the Market Promotion Program and how various proposed reforms would affect our use of this program. In the following testimony, I will also offer three suggestions:

My first suggestion is that we re-focus the MPP on countering trade barriers:

We need the Market Promotion Program in order to compete in the world market.

The MPP, and formerly the Targeted Export Assistance program, has been instrumental in providing motivational and financial support for the U.S. wine industry to enable it to compete in foreign markets. Prior to 1986, the industry exported to only a few markets. The largest market was Canada. Exports consisted predominately of inexpensive bulk wines. Export sales in 1985 were \$27 million. The industry, faced with significant foreign trade barriers and the overwhelming competitive strength of the wine industries of Europe, chose to compete for greater market share in the U.S., rather than to seek foreign market entry.

However, with the passage of the Wine Equity Act in 1984, and the priority given the industry in government assistance to reduce foreign trade barriers, the industry began to seek entry to foreign markets. The first allocation of funds through the FAS Cooperator Program was a very cautious \$200,000 in 1985. From this base, export sales of U.S. wines grew to \$174.7 million in 1992 and the 1993 MPP allocation for Wine Institute rose to almost \$11.7 million, as we became the largest recipient of funds last year.

In a perfect world, the high quality and competitive pricing of our wines would be enough to ensure a considerable share of the world market. In reality, though, U.S. wines are facing enormous competition and unfair trade barriers.

In 1992, the European Community subsidized its wine sector to the tune of \$2.5 billion. Over \$84 million of this went directly toward price subsidies for wine exports. When competing against such artificially low prices, it is virtually impossible for U.S. wines, which must compete without any price or production subsidies, to establish a foothold in new markets.

Unfair competition only paints half of the picture. In many of the world's largest markets, we are facing stiff barriers as countries protect their local industries. Canada imposes steep price markups masked as cost-of-service charges on our wines, contrary to the U.S.-Canada Free Trade Agreement. Japan's distribution system confounds even the most determined wine exporter. The European Community continues to mandate burdensome registration and certification requirements. In the face of such obstacles, it is

little wonder that U.S. wines have only scratched the surface of the world wine market.

We are not asking for a handout – only a level playing field on which to compete. The Wine Institute is quite proud of the accomplishments it has made thus far, without government subsidies. Indeed, we have shown initiative and resourcefulness in dealing with such issues as the phylloxera vine disease, increased competition from foreign suppliers, a declining domestic market and a 529 percent federal excise tax increase in 1991.

In order for the U.S. wine industry to continue to thrive, it must build its exports, and for this we need assistance in combatting unfair trade barriers. The Market Promotion Program has proven itself effective in helping us penetrate new markets. This program does not represent "corporate welfare", it provides an incentive and motivation for our wineries to compete against the industry/government partnerships of our competitors and in countries where local wine producers are given unfair protection.

My second suggestion is that the program be reviewed and managed on an industry basis with no restriction regarding company size. Our industry program includes a generic marketing program and a branded program that includes 107 California wineries. These wineries include several large wineries, many mid-size wineries and over 50 small producers. This mix of wineries mirrors our industry. These producers cover all price categories, types, and styles of wine.

Approximately 88% of all California wine grapes are purchased by wineries from independent growers. If the MPP were to exclude or limit participation by large companies, many independent growers would be denied access to the program and the export market. Large companies seek mass markets and help establish the beachhead for smaller producers. I can see no viable reason to exclude or limit participation of large companies in our industry.

The concept of graduation from the program is theoretically sound, but the time frames ignore competitive reality. When our export markets become established and mature, then government funding should be shifted or discontinued. However, our industry is in the infant stage in developing export markets. Our industry has less than a 1% share of the export market for wine. Our competitors have been promoting their products, and protecting their markets, for over 200 years. How can we talk about three and five year time frames?

I believe that each industry that receives MPP funds should be held accountable for achieving their goals, managing a program that is fair to all members – large, medium, and small; and establishing controls so that funds are spent in markets of opportunity and not in established markets.

My third suggestion is that the MPP be redesigned to support small business more effectively. As I have stated, most of our branded participants would be considered small businesses by any definition. However, the way to make the program more effective for them is not to set aside funds, but to make the program more responsive to their needs, and

easier to administer. Each year, we experience a turnover of about 20% of the small wineries in our program. This is for two reasons: the majority of the expenses that they incur are not eligible under the program, and the administrative and reporting requirements are too burdensome. Several participants have told me that they could not see the advantage of hiring a \$20,000/yr. person to administer a program that filled their needs of \$10,000 in matching funds – especially when these funds only covered a small part of their export marketing expenses.

Our goal should be to make this program more effective for small business, not to mandate an amount of money that cannot be used effectively. Our small wineries, in just about every instance, receive the allocations that they request. The problem is not the funding, it is the rules and administrative requirements of the program itself. Let's work on the real problem.

I thank you for the opportunity to share with you my thoughts on the Market Promotion Program and ways that it can be re-focused and improved. In general, we believe that the MPP is a government program that works, that is responsible for the export success of our industry, and should be supported and improved. In business, when times are tough, executives search for programs that have a track record of success and leave the doubtful programs for examination at a later time. The MPP has allowed our industry to compete in world markets against stronger competitors, has added jobs, and new markets for growth. We are just in the beginning stages of our growth with considerable potential ahead. We welcome your support in improving this program, and building upon its positive effects.

Mr. ROLLO. I hope you didn't think we were in favor of restricting it to small business. What we wanted to do was to support the program's focus toward small wineries. We thought the rules could be improved to allow small businesses to take greater advantage of the program.

Mr. CONDIT. That is an admirable position. It is kind of a populist attitude, everybody wants to save small business, which, heaven knows, I want to as well. But to define it becomes a little harder.

Mr. Campbell I think made some points about his beginnings and how this program benefited him and if he has a small business, and we got—if that is the standard, then we need to know that.

I also would like to ask—is it, Mr. Theis?

Mr. THEIS. Yes.

Mr. CONDIT. You mentioned—I think you did in your testimony, made some reference to the growers aren't—have no program that supports them from the USDA but the wineries do. Was that in reference to MPP?

Mr. THEIS. Well, it wasn't specifically. But in our case, MPP is very difficult to participate in because we are a local grower organization, and our budgeting is very limited; and when you eliminate travel expenses from the program, you virtually eat up our entire budget just taking a trip to Europe.

So we're really excluded from the program. And in the interest of doing more generic advertising, I think we would be very interested in doing something to support that.

Mr. CONDIT. I guess that is the point I want to get to. I have been on the floor of the House, and I have gotten up and talked about, you know, when they talk about large companies, behind those large companies whether it is oranges, grapes, or wine, whatever, there is a group of farmers who farm something. So do farmers or growers benefit from MPP? And will they be hurt because of the cuts made with MPP as of right now?

The point I want to make is that some people in Congress think it is just these large conglomerate businesses that benefit. I suspect, you know, there is a lot of co-ops and a lot of farmers that are going to hurt as well because we don't have this program or are scaling down the program.

So maybe you can respond to that.

Mr. THEIS. Yes. I think both large wineries and small wineries who participate in the program benefit all growers. It's a benefit to all of us, and I think that while a lot of the small wineries that participate may or may not buy grapes from growers, it's helpful when they can export product.

And I think we have to be realistic in Sonoma County that one of the largest participants in the program buys a substantial amount of grapes from Sonoma County. So a reduction in that program could very seriously have a major impact on grape purchases here, and I think it already has, as you've seen in the newspaper.

Mr. CONDIT. And the grape growers could be defined as small, medium, and large?

Mr. THEIS. Yes. We have small, medium, and large growers. There are about 750. And I think something like a third of them have in the neighborhood of 5 to 10 acres of grapes or fewer.

And if you want, I could certainly get you that data, because it's predominantly small growers.

Mr. CONDIT. Well, any data that you can get for us, we would appreciate very much.

And I tell you why. We will eventually make a presentation to the full committee, Ms. Woolsey and I will both do that; and some of our colleagues do not understand these kinds of programs. They don't understand agriculture. So whatever additional information any of you can get to us to insert in this hearing would be most helpful.

[The information follows:]

Number of Growers and Acreage by Size of Vineyard in Sonoma County

Acreage Size	Number of Growers	% of Total Growers	Cumulative % of Growers	Sum of Acreage	% of Total Acreage	Cumulative % of Acreage
0-2	106	13.80%	13.80%	106.9	0.31%	0.31%
2-5	140	18.23%	32.03%	498.3	1.44%	1.75%
5-10	98	12.76%	44.79%	760.7	2.21%	3.96%
10-15	84	10.94%	55.73%	1043.2	3.02%	6.98%
15-25	89	11.59%	67.32%	1751.3	5.08%	12.06%
25-50	111	14.45%	81.77%	3900.5	11.31%	23.37%
50-100	60	7.81%	89.58%	4336.4	12.57%	35.94%
100-200	39	5.08%	94.66%	5250.6	15.22%	51.16%
200-500	29	3.78%	98.44%	8114.7	23.53%	74.69%
500-1000	10	1.30%	99.74%	6147.9	17.82%	92.51%
1000 +	2	0.26%	100.00%	2581.0	7.48%	99.99%*
TOTAL	768	100.0%	100.0%	34,492	100.0%	99.9%*

* Sum does not equal 100% due to rounding.

Source: California Agricultural Statistics Service, California Department of Food and Agriculture

Mr. CONDIT. I wanted to ask Mr. Campbell about MPP. You credit it for being a part of your success; and do you think that—one of the things that we hear is that some small business, you know, who we would like to sort of give a preference to, may not have the wherewithal to compete when we get into, you know, major competition in Europe.

I mean do you—what do you think of that? Is that a valid argument or not?

Mr. CAMPBELL. It's a completely valid argument. We're already in competition with Europe. I wanted to stress the fact that my small winery, a relatively small winery, is up against the very well-mobilized, very well-funded wineries from all over the world, who individually and generically can just cream us if we don't have a little bit more help.

I could take 10 minutes on the subject repeating what Rick Theis just said and what Herb mentioned and Bob Hartzell and any number of other people, that the world is positioned—it almost feels—sitting as a small winery in Sonoma County, that the world is just targeted upon me; it just has a bead right on my head from excise taxes at home to tremendous funding for subsidies to foreign farmers who are competing for the exact same slots on the shelf as I am.

Mr. CONDIT. Would you think that we would need MPP if we had a fair and free foreign trade policy with these countries? Would you need it in your—

Mr. CAMPBELL. No, I don't think I would, to be honest with you. That's probably not what the fashionable thing is to say; but I think if the playing field were level, then we could and should compete on our own merits.

But when the playing field is not only not level but uneven and with boulders strewn upon it, then I think we need help from our government to represent our products abroad. We simply can't—without at least some help, we can't even afford in any way to participate in selling our wine overseas. We'll just sell it to the American market and then we'll regress to 10 years ago when we were just starting to emerge as a world class industry. We'll be back in the stone age of limited markets.

Mr. CONDIT. Well, MPP, I think it is a manifestation of a lack of whatever arrangement we can make with foreign governments to our fair and free trading system.

And now the MPP is under attack, and I don't see any concentrated effort to change the trade policy so that we do have this fair playing field that everyone's made reference to today.

Mr. CAMPBELL. I think it's very important to continue that, both as a—to continue the program or some form of the program, something similar to it, as a way of holding a threat, albeit a minor threat, over the heads of heavily subsidized foreign wine producers.

Mr. CONDIT. I would like to—any growers here or anyone at the table who wants to respond to this: Could you tell us in what ways the Soil Conservation Service has been most helpful to grape growers?

Mr. Hartzell.

Mr. HARTZELL. The way I am most familiar with it is on the matching funds up to, I think, it is \$3,500 for improved irrigation systems, drip irrigation, and contained irrigation systems.

I believe that over in Lodi there's a pilot program where this would be ASCS, I guess, yes, is matching up to that same level the growers that want to try integrated pest management.

I believe that's an experimental program to see if on a district basis integrated pest management can be encouraged through that kind of a, call it a carrot. Those are the two that come to mind.

Mr. CONDIT. Anyone else have any comments or suggestions?

Mr. Schmidt.

Mr. SCHMIDT. Mr. Chairman, in Napa County, the Soil Conservation Service is providing some valuable services for us in advising growers on erosion control plans, and those sort of things. We have very strict land use regulations in Napa County, where you can develop a vineyard, where you can put a winery, what you can do and can't do.

Soil Conservation Service works in concert with the county government as being the agency that approves the plans and with the resource conservation district.

So we think it's a very valuable program. It's not—like anything, it's not without its problems; and we need to help them, and we will. But we're concerned that, as the district offices shrink in number—I think our soil conservation guy is responsible to a fellow in Redding or Red Bluff or somewhere. He spends most of his time on the road. So we would encourage help for the Soil Conservation Service.

Mr. CONDIT. OK. I have one additional question for Dr. Bisson.

You talked about the grape importation facility. Can you talk about that just for a minute, explain that to us?

Dr. BISSON. I didn't mention it in my oral testimony, but I did in my written testimony. And that is a very important program that will allow us to import materials not just for the industry's use, but also for research. And that is why the university was very interested in playing a major role in getting this facility established and under construction. It is under construction. It hasn't yet become an operation. But many of the problems that we are facing, we are hoping there is going to be genetic solutions, that is there will be resistant plant material out there that we can use to modify varieties so that they are disease resistant, pest resistant, as well as helping us to provide higher quality fruit by coming up with different clones or analyzing the clones that are out there and understanding the relationships between different varieties.

Because with things that were imported over 100 years ago, where they came from is kind of fuzzy, and what they really are is fuzzy. And we have some things we know out there that are being called—what they are being called because of where they came from in Europe, and it is not clear that that is what those varieties really are. And that gets into marketing problems as well as scientific. We want to balance all of this and be able to provide safe materials to people in the industry, because we don't want to foster or encourage the black market importation.

It is going on because that is how new pests and diseases are introduced into the State over which we have no control and don't

know there is a problem until there is a flareup of something strange in some part of the State.

So we are hoping the importation facility will fill that need in a timely fashion, it will discourage people from bringing things in in a briefcase that I know nothing about.

Mr. CONDIT. Did I misunderstand your written testimony? Is it funded—is the facility fully funded? And if isn't or it is, how is it funded?

Dr. BISSON. I believe it's fully funded. We just got final allocation.

Mr. SCHMIDT. The construction of it is funded, but the operation of it is supposed to come out of the people who buy the materials that will pay for that. Whether that, in a recession, is going to pay for the total operation of it, I don't think anyone is clear.

Mr. CONDIT. Can you—Doctor, you also talked about a lot of insects that you mentioned earlier. Can you just kind of talk about UC Davis and what they are doing with that and the phylloxera. You said we could take care of that. Can you talk about that, how we take care of that. And then you mentioned some others that we couldn't take care of.

What is going on with that right now?

Dr. BISSON. The main issue with phylloxera biotype B, and all phylloxera problems, is there are root stocks that are more sensitive than others. And this is sort of a simple system where the insect feeds upon the root system; and if the plant can outgrow or deal with or limit insect population numbers on the root system, then there is no decline of the plant.

So phylloxera is everywhere. There is no resistant root stock in the sense that it is a root stock that has no phylloxera on it. There are root stocks that don't decline because of phylloxera infestation. And, obviously, they have some way of limiting the population, the feeding frenzy as I call it, of the organism, so the plant survives and so does the insect.

Now, while we have root stock that are resistant to biotype B, we don't know where biotype B came from. We don't know if there is a biotype C, D, or E in the future; and there probably is because this is an organism, insects can evolve and adapt to environmental conditions and feeding conditions.

So we need to be continually on top of this pest and understand how it evolves in the vineyard and understand how we can achieve sort of a peaceful coexistence of that pest and root stocks. And if that is even possible, because we might have in the future yet another bout with phylloxera as the root stocks that we're planting now encourage genetic variation in the population.

What the research has told us to date is that even though this organism reproduces asexually, there is a tremendous amount of genetic change occurring in the population. There are many, many biotypes throughout the Southwest and California that we have been in the process of categorizing. But that is one project, and the research funds—total research funds going to support that research, plant scientists in our department, and the entomologists in the Department of Entomology—is only about \$100,000.

Mr. CONDIT. Where does the money come from?

Dr. BISSON. The money comes largely from the American Vineyard Foundation, in fact, almost exclusively from the American Vineyard Foundation.

We have some gifts come to us to support this research from private individuals who are interested. And we had a benefit that the industry helped us put on last year called "Root Stock." It was at Silverado Country Club. There was participation from wineries, who poured wine, and restaurants served food there to raise funds for this.

But that's it—there's no resources coming in. Until this latest budget, where there was an allocation made for phylloxera research, no resources were coming into either the university via grants program or to the USDA scientists that work with grape pests to address the phylloxera problem.

As I mentioned, there are other problems like Pierce's disease. Pierce's disease is a serious disease because we don't have a scientific handle on it. I mentioned we don't even have a good characterization of the microorganism that is causing the problem. And we're going to be in serious trouble in the future because, unlike phylloxera, when someone comes to me and says they have a problem, I can say plant this root stock instead of that one and in 5 years you'll be up in production again. With Pierce's disease, it's you can't have a vineyard there, you know, the pest is endemic; you're going to have to relocate your vineyard. And that is incredibly difficult to do. Once you develop a style and vineyard location that is perfect for the wine you're trying to make, you can't just pick up your stakes and move somewhere where the organism isn't.

Mr. CONDIT. Thank you, Dr. Bisson.

I would defer to my colleague.

Ms. WOOLSEY. Thank you, Mr. Chairman. Your questions were in depth and show your knowledge. I have three more general subjects I would like to hear more from you about.

It seems like there was a consensus that a wine desk makes good sense. My vision of a wine desk would not be regulatory at all but would be supportive and a liaison and an ombudsman activity in Washington for the wine industry.

Many of you talked about that, but those of us who didn't or those that would like to add something to that, like examples of where you would have taken advantage of a wine desk at the USDA had it been there over the past few years, I would appreciate hearing whether you think it is good idea and how you would use a wine desk if it were available.

Mr. SCHMIDT. Well, I would use it. In my travels back to Washington, you can talk to people about specific issues, whether it be research or it be APHIS or it be, you know, MPP. But there is no one person that you go and say, look, I need to talk to somebody, and I need to be led through this process, I need some help, OK.

What we do is hire a law firm that helps us go through the process and that is expensive. It would be nice to have someone there that is our advocate and say, OK, you need to go and make the call for you. You need to go see Kim Schnorr, or Mr. Rominger, or somebody, and make the appointment and get that done for us. And so all that sort of legwork is done, which would save an awful

lot of time and effort and money for a lot of us that are back in Washington quite often.

Mr. CAMPBELL. I would like to underscore what Herb said. And the point that—the word he used is “advocate.” Pay attention to that word because that’s what we’re talking about. We want an advocate. We want a champion. We want somebody we can go talk with, but also somebody who’s fighting on our behalf, because we’re an important part of the national economy. And I’d like to just very briefly clarify an impression I think has been given to you perhaps erroneously.

The wine business in the United States is not some quaint little sort of subpart of the national economy. We’re a strong part of the national agricultural economy. We’re not struggling to make nice little wines that we hope the people abroad will buy. We are making wines that by any standards, by any definitions, and by everybody’s recognition, are world class. There are no better wines than are made in the United States. There are equal wines, but there are no better. We will go head to head with anybody in the world if given a chance. So we’re not just some sort of small benighted little dying industry of tiny hobbyists. We’re a vibrant, strong agricultural force that needs help and respect. And that’s where an ag desk comes in.

Ms. WOOLSEY. Rick.

Mr. THEIS. I think if there were an agriculture desk the grape growers would certainly support that it not be regulatory in any fashion. That’s for sure. The other thing that it might be able to help with is in participating in events like Wine Week, American Wine Week, where we’re dependent right now on one major trade association from California to carry the ball. It would be a whole lot more helpful for some of us small guys who either because we are growers or don’t choose to belong to that trade association would find an advocate in Washington, or at least someone we could call up and say how do we participate. That would be, I think, very helpful to us.

Now, let me take off my grape grower hat for a minute and put on my hat as the executive director of the Meritage Association, a trade association of wineries that are trying to create a name for a new category. We just have a tremendous problem with the Bureau of Alcohol, Tobacco, and Firearms. They have a certain paranoia in how they deal with the wine industry and always believe that everything that a winery is trying to do is to get away with something, to mislead the public, and that just isn’t the case. If we had someone, maybe at USDA who was a friend of wine that we could explain the situation to, that had an open mind, we could explain what we are trying to do and then maybe they could help us educate BATF or help us learn who the people are at BATF who are amenable to these kinds of things so we could have an open ear there. The advocate could also act as a mediating force in dealing with BATF and several of the other Federal agencies.

Ms. WOOLSEY. Zelma, when you respond, and down here, too, Bob, would you tell me if you see this as one person. How do you really see this?

Ms. LONG. OK. I wanted to respond to your question about how can that specifically be useful. I am not sure I can really respond

to how it would be structured, because I think once the needs are clarified or defined perhaps the structure will become more obvious. But in two examples I was struck by Dr. Bisson's testimony about the response to her proposed research proposal that said this only addresses issues of quality, not the real issues of productivity. The quality, of course, is the bedrock of our reputation and much of our success and is a "real issue." And I think perhaps even within the USDA an advocate or a desk could help develop an understanding by the USDA of the particular characteristics of our business, which I don't think would happen overnight, but it would be very beneficial to have someone with a strategic understanding of the wine industry within the USDA.

I was also struck by her testimony that identified \$60 million of funding to the NIAAA to address the problems of alcohol, and \$2 million within the USDA to study the human health and nutrition. And I think perhaps once the industry becomes aware of these kinds of imbalances, to have someone to go to and have an opportunity to propose what I think are very proactive programs for society, to have someone within that organization that would help the organization and yourself derive support in a process to gain better balance would be very helpful.

Ms. WOOLSEY. Thank you.

Mr. HARTZELL. Some years ago, there was a fellow at USDA, his name is Bill Doering. He retired probably 6 or 7 years ago, and I think Bill is an example of the type of person I see, very deep in both winemaking and the grape growing knowledge. He followed our industry not so much that it was assignment, because he was Foreign Agricultural Service, but he did it because he wanted to. He knew the politics of wine, but he was so deep in the science of wine and the science of grapes.

Example—when we were negotiating with the European Community on the wine accords 7 or 8 years ago, which they took 7 years to accomplish, Bill really was the authority and created the rapport with the lead person in the European Community to help to bring all this together. We don't have anybody at USDA, that I am aware of, that is like a Bill Doering.

Another example—we have had a considerable amount of white Zinfandel coming in from Brazil. We sent Dr. Olmo from Davis down there to investigate the production of Zinfandel. Under their high humidity conditions, it will not produce a crop of grapes that can be vinified. And Dr. Olmo is a world authority. He came back and reported to BATF. Unfortunately the Brazilian Government had given all the proper certification, and yet viticulturally, the reality was that those vines would not produce a crop of grapes. So you had BATF, without an agricultural understanding, that desperately needed to draw on somebody with the agricultural understanding to say, "I don't care what the piece of paper says, Zinfandel grapes will not grow under those high humidity conditions and produce wine, and therefore it must be something else coming into this country. It is still coming in."

Ms. WOOLSEY. Thank you.

Mr. SCHMIDT. Can I say one more thing? Another thing, I just thought about the advantage of this, would be for the staff of any congressperson who has wine in their district could call this liaison

desk. I think that maybe if they are restructuring USDA, then maybe it is at the assistant counsel level and maybe at this point we start with one person, or a secretary, whatever, not over—we don't need an assistant secretary, but you know.

Ms. WOOLSEY. Right, this is the time, the time is right. You are right about that.

My next question, and it is mostly for the growers, but Zelma and Patrick, I would like you to respond to these, too. We were kind of down at this end last time. It is about the Soil Conservation Service. One of the proposals for reforming the USDA is to consolidate the Farmers Home Administration, the Agricultural Stabilization and Conservation Services, and the Soil Conservation Service to form the Farmers Services Administration, to put all three under one roof, so to speak. During hearings we had in Washington, during Chairman Condit's hearings, I brought up a concern about this, because I am really concerned that the Soil Conservation Service's natural resources programs will possibly be overshadowed by the other agencies. That is just my opinion on it and some of the things I have heard, but I would like to hear from you if you think that it would be more efficient, it would work, or do you think that we might lose something by consolidating?

You want to start, Zelma, Ms. Long, or have you thought about it? That is OK, too.

Ms. LONG. I would like to address that. I would like to address it in written testimony.

Ms. WOOLSEY. OK, thank you.

Mr. CAMPBELL. Ditto.

Ms. WOOLSEY. You ditto?

Have any of you put any thought into what might happen with that? I will ask the question when USDA gets up here, so you can hear what they say. But it is a concern.

All right. My other subject is the wine study. As we all know, in 1990 the farm bill authorized the USDA to conduct a comprehensive study of the wine industry, a study that has not been conducted to date, and I believe a study that would be of great value to the industry. Would you comment on that? It looks like there is a possibility that that study is not going to happen. Would that study be useful to you? Should we be fighting for it?

Mr. HARTZELL. As I said in my written testimony, the study was an idea that Chairman de la Garza had as he, rightfully, I believe, wants to focus official Washington on the fact that this really is an agricultural crop and not a part of the alcohol industry. And I think it's important to us, that we be seen as part of agriculture and maybe not a part of the liquor industry. And to do that study would have focused, through an official document, and helped create in official Washington the realization that this is an agriculture industry, not a part of the alcohol industry. Yes, it was—it was not funded, but authorized. And I don't know how important it would be other than to start improving the perception.

I do know that the chairman also, however, wanted to have a special subcommittee at one time within his committee on wine and winegrapes. That got tied up into a lot of internal problems and so didn't go very far.

Ms. WOOLSEY. Anybody else like to comment on that?

Mr. CAMPBELL. I think it's very important. I know Bob didn't mean it as such, but he said it might only go as far as perception. I would say if we can get to the perception point of our industry, we're far better off than we are now. We have the perception of being a liquor industry. We have the perception of being a regulated industry and a source of excise taxation and a source of social ill being. Those are not the facts. Those are erroneous perceptions that we internally cannot fight. We need outside help.

If we become treated as an agricultural product, that goes a very long way toward disassociating ourselves from the whole chain of logic that floats down once you perceive us as simply as a liquor—as an alcohol industry. We are a farming, agricultural industry, with all the attendant social, national, and economic benefits that flow from that perception. So I am a very strong proponent of that, going in that direction, definitely. And I'm sure if we had an agriculture desk, I mean a wine desk at USDA, that would go farther in promoting what I'm sure would be very positive findings from that search.

Ms. WOOLSEY. Well, thank you. Mr. Chairman.

Mr. CONDIT. Thank you very much. We would like to thank all of you for your testimony. It was very helpful to this subcommittee. You have been very kind to us and patient with your time. We appreciate it very much. Let me just say that if anyone has any additional information they would like to submit to the committee, you have ample time to do that. All you have to do is get in contact with the committee staff and we will submit it for the record. Thank you very much.

The subcommittee will take a 5-minute recess. We will reconvene at 3:25.

[Recess taken.]

Mr. CONDIT. The committee will reconvene. Could we ask all of you that are in discussion to please sit down or if you want to move your discussions out back, we would appreciate it very much.

Thank you folks for being here today. We appreciate your patience and we have a practice on the committee to swear all witnesses in. If you would rise and raise your right hand, I appreciate it.

[Witnesses sworn.]

Mr. CONDIT. Thank you. You have supportive staff here today, I take it? Ms. Woolsey is going to introduce the second panel, and if we can get through everyone's testimony and then we will have some questions at the end of the testimony. Ms. Woolsey.

Ms. WOOLSEY. Mr. Chairman, before I do that, if it is all right with you, I would like to recognize three people who came today to represent legislators in California. First I would like to acknowledge that Dave Nelson is here as a representative for Congressman Dan Hamburg. And I saw Pat Wiggins. She is here as a representative for Assemblywoman Valerie Brown, and I saw Don Bennett, who is here representing Assemblywoman Vivian Bronshvag. I think that we can be pleased that they too care.

Now, first, I would like to introduce Mr. Pearlie Read, who is the State conservationist of California for the Soil Conservation Service. He is based in Sacramento.

**STATEMENT OF PEARLIE READ, STATE CONSERVATIONIST,
SOIL CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE,
ACCOMPANIED BY LISA WOO SHANKS, AND PHIL BLAKE,
DISTRICT CONSERVATIONISTS**

Mr. READ. Mr. Chairman, Congresswoman Woolsey, in answer to your question I will submit the full text of my testimony for the record, and I will take the time here today to provide you with an overview of the USDA's wide variety of agencies and programs that provide support to the U.S. wine and winegrape industry. I will also discuss the specific role of the Soil Conservation Service.

In this regard today I have with me Lisa Woo Shanks, who is our district conservationist headquartered at Petaluma and is in charge of Sonoma and Marin Counties, and Phil Blake, our district conservationist in Napa, who is in charge over in Napa County. They are our local conservation experts.

As I previously stated, USDA provides a wide range of services to the wine and winegrape industry and growers. These include such services as research, economic statistics analysis, foreign market development and promotion, crop insurance, disease and pest control, credit, and the broad range of technical assistance. More specific information on services and programs provided by the Animal and Plant Health Inspection Service, the Agriculture Research Service and the Foreign Agriculture Service will be provided by the other two members of our panel from USDA.

Let me now introduce concerns about the comprehensive study of the wine and winegrape industry which was authorized by the 1990 farm bill. This study requested a determination of how USDA programs could be improved to better assist and support the U.S. wine and winegrape industry and whether new methods or programs could enhance wine and winegrape production processing and expand markets. The study was to be conducted in consultation with local, State, and national associations or organizations of wine and winegrape producers. However, the 1990 farm bill also included a provision that the Secretary of Agriculture, together with congressional leaders, would concur on a priority list of 12 studies which were to be completed from approximately 60 studies that were authorized by the 1990 farm bill.

It was decided back in 1992, and I guess 1991 and 1992, that the winegrape study was not one of the highest, the 12 highest priority studies, and the study was not conducted due to scarce resources. Based on current restricted Federal funds and the provisions in the farm bill which restrict the number of studies, there are currently no plans to conduct the study. However, the Department will soon submit a mandated study of the U.S. fruits and vegetables industry conducted by the Department's Economic Research Service, which will include a section or sections on the U.S. winegrape industry.

Now I'd like to turn to how the Soil Conservation Service is assisting the U.S. wine and winegrape industry. Grapevines are unique in many ways. Specific to our topic today is the ability of grapevines to be grown on hillside slopes, where most crops could not be grown. Indeed, many people believe that grapes grown on hillsides produce superior fruit and therefore superior wines. Often in developing new hillside vineyards, soil erosion can carry away 150 tons per acre for the first year or two. This compares to a typi-

cal hillside soil formation rate under normal conditions of 1 to 3 tons per acre per year.

Proper management techniques are crucial in preventing this excessive soil loss. Soil is a limited resource and as President Franklin Roosevelt said, the Nation that destroys its soil destroys itself. Today in California, certain vineyard planting practices have greatly accelerated the danger of hillside soil erosion. The presence of phylloxera biotype B is contributing to die—excuse me, to vine die off.

While many California winegrapes are grafted to phylloxera resistant root stock, about a 40-square-mile area will be affected. Ninety-five percent of this land is located in Sonoma and Napa Counties. There are several methods of planting new resistant root stock. The method SCS is most concerned about is removing the vines, deep ripping the soil, and planting. Replanting is just as disruptive and erosive as planting a new vineyard. The SCS is working with growers to protect hillsides during this preplanting transition period.

There are a number of conservation practices that we use in working with growers to protect the land. One of those practices consists of using a cover crop. When our district conservationists for Sonoma County started working in Sonoma Valley about 10 years ago, there was only one grower using a cover crop. Over the years of demonstration projects and educational efforts, cover crops are now an acceptable practice.

For example, in Sonoma Valley, about half of the hillside grape growers use cover crops. This is an impressive improvement in the stewardship of the land. We see real gains by many growers that there is room for improvement. The loss of any soil should concern us all.

So how do contemporary vineyard practices and the conservation provisions of the 1985 and 1990 farm bill relate to one another? The 1985, 1990 farm bill conservation provisions provided for the SCS to direct most of its resources to areas that produce agricultural commodities as defined by the 1985 farm bill.

Commodity crops are defined by the 1985 and 1990 farm business as sugar cane and those crops that are produced by annual tillage. Since grapevines are certainly not annuals, they do not fall under the farm bill conservation provisions. So the indirect effect of implementing the conservation provisions on us locally here has been for us to take our resources and direct those to areas where there is a large concentration of highly erodible land and commodity crops as defined by the farm bill.

When the Native Americans looked at how we treat the land, they considered the effects their actions will have 7 years into the future—or 7 generations into the future. We, too, need to look forward and continue our efforts toward sustaining the soil and agriculture for generations yet to come.

So in summary, the Department of Agriculture, Secretary Espy, recognizes that the wine industry plays an important role in the economic health of U.S. agriculture, particularly here in California,

and USDA will continue to do what it can to provide needed support and ensure coordination of its programs to benefit the wine and the winegrape industry and growers. So, Mr. Chairman, Ms. Woolsey, on behalf of USDA, thank you for your continuing leadership in this area, and also thank you for inviting us here today.

[The prepared statement of Mr. Read follows:]

Statement of Pearlle Read
State Conservationist
Soil Conservation Service
United States Department of Agriculture

before the
Subcommittee on
Information, Justice, Transportation and Agriculture
Committee on Government Operations
United States House of Representatives

Concerning the Role of USDA
with the Wine and Winegrape Industry

Rohnert Park, California
August 24, 1993

MR. CHAIRMAN and CONGRESSWOMAN WOOLSEY: Thank you for the opportunity to provide your subcommittee with an overview of the U. S. Department of Agriculture's (USDA) wide variety of agencies and programs that provide support to the U. S. wine and winegrape industry. I will also discuss the role of the Soil Conservation Service (SCS) concerning the U.S. winegrape industry. In that regard, today I am accompanied by Lisa Wool Shanks, District Conservationist in Petaluma, and Phil Blake, District Conservationist in Napa.

As I previously stated, USDA provides a wide range of services to the wine and winegrape industry and growers. Generally, these activities are a part of the broader services USDA provides to agriculture and food processing. These include such services as research, economic statistics and analysis, foreign market development and promotion, crop insurance, disease and pest control, credit, and a broad range of technical assistance. USDA programs and

activities are coordinated to assist its vast range of customers including the winegrape industry and growers.

USDA also cooperates with States to fund and operate the extensive system of agricultural experiment stations and cooperative extension services across the Nation. The wine and winegrape industry is a major focus of some of this activity, particularly in states such as California, that produce significant quantities of grapes. The Agricultural Research Service (ARS) also provides some research support.

In addition, the Animal and Plant Health Inspection Service (APHIS), in cooperation with the States, operates disease and pest control and protection programs which benefit winegrape producers. Helene Wright, Assistant Regional Director—Western Region, Plant Protection and Quarantine Division, will address specific APHIS and ARS assistance in her testimony.

Another area of cooperation between the States and USDA is data collection. The National Agricultural Statistics Service, which has jointly funded offices in about every State, prepares and reports national estimates of winegrape production, utilization, prices and related variables. States with significant wine and grape production collect and report more extensive data.

The Economic Research Service (ERS) reports data on international trade in wine and analyzes the market for wine grapes and other fruits. Data collection on, and economic analysis of, agricultural labor and other factors also help the winegrape industry.

The Foreign Agricultural Service (FAS) provides market analysis and trade data for many commodities, including wine. Mr. Peter Kurz, Deputy Director for Marketing, Horticultural and Tropical Products Division in FAS, will testify in further detail on FAS activities. Briefly, the Market Promotion Program provides export promotion assistance to the U.S. wine industry and will be discussed later. USDA also plays a major role in U.S. government activities, both bilateral and multilateral, aimed at reducing foreign trade barriers to wine exports. The most important of these is the Uruguay Round of multilateral trade negotiations, which should offer expanded export opportunities for the U.S. wine and winegrape industry once a final agreement is implemented.

Credit assistance is available through the Farmers Home Administration (FmHA). Production of grapes for wine may be financed under FmHA farmers programs for family farmers who are unable to obtain credit elsewhere at reasonable rates. Loan guarantees are available from the Rural Development Administration (RDA). Such guarantees cannot be used for grape production; however, they can be used to cover the cost of processing distribution facilities. Federal crop insurance for grapes is available in about 120 counties in the U.S.

A number of other technical assistance activities provided by USDA offer assistance to winegrape growers and wineries in areas such as marketing and in the operation of winegrape cooperatives. Overall, USDA attempts to provide information and a wide range of assistance in a coordinated fashion to the wine and winegrape industry in the United States.

Let me now address your question concerning the comprehensive study of the wine and winegrape industry which was authorized by the 1990 Farm Bill. This study requested a determination of how USDA programs could be improved to better assist and support the U.S. wine and winegrape industry, and whether new methods or programs could enhance wine and winegrape production, processing and expand markets. The study was to be conducted in consultation with local, State and national associations or organizations of wine and winegrape producers, and was to give special emphasis to States or other geographic areas that have not traditionally had a wine and winegrape industry.

However, the 1990 Farm Bill also included a provision that, in order to conserve limited Federal resources and based on the limited number of Federal funds and the growing budget deficit, the Secretary, together with Congressional leaders, would concur on a priority list of 12 studies which were to be completed from the more than 60 authorized in the Act. It was decided in 1991 and 1992 that the winegrape study was not one of the 12 highest priority studies and the study was not conducted due to scarce resources and the concentration on studies which were critical to implementing the 1990 Farm Bill.

Based on current restricted Federal funds and the provision in the Act which restricted the number of studies, there are currently no plans to conduct the study. However, the Department will soon submit a mandated study of the U.S. fruits and vegetables industry, conducted by the Economic Research Service, which will include sections on the U.S. winegrape industry.

I'd like to turn now to how the Soil Conservation Service is assisting the U.S. wine and winegrape industry. Grape vines are unique in many ways.

Specific to our topic today is the ability of grape vines to be grown on hillside slopes, where most crops could not be grown. Indeed, many people believe that grapes grown on hillsides produce superior fruit, and therefore superior wines.

Often in developing new hillside vineyards, soil erosion can carry away 150 tons per acre for the first year or two. This compares to a typical hillside soil formation rate of one to three tons per acre per year. Proper management techniques are crucial in preventing this excessive soil loss. Soil is a limited resource, and as President Franklin Roosevelt said, "The nation that destroys its soil destroys itself."

Obviously there is a threat of soil erosion anytime a hillside is cultivated. But today in California, certain vineyard planting practices have greatly accelerated the danger of hillside soil erosion. The presence of Phylloxera biotype B, a small aphid-like insect that lives underground and feeds on the roots of a vine, contributes to vine die-off. While many California wine grapes are grafted to rootstock that is not susceptible to attack by Phylloxera, about a 40-square mile area will be affected. Ninety-five percent of this land is located in just two counties, Sonoma, and Napa.

Phylloxera can be managed by planting wine grapes on a rootstock that is resistant to it. There are several methods of planting new Phylloxera-resistant rootstock. The method SCS is most concerned about is removing an existing vineyard, and basically starting over. This involves removing the

vines, deep-ripping the soil, and planting new resistant rootstock varieties. In terms of the land, this replanting is just as disruptive and erosive as planting a new vineyard.

The SCS is working with growers to protect the hillsides during this necessary replanting transition period. One practice that can be very helpful is establishing a grass cover crop between vine rows as soon as possible after removing infested vines. The grass is mowed instead of being disked or cultivated and the soil is protected from the early winter rains by the vegetation. Cover crops have gained widespread acceptance in California. When Lisa Woo Shanks, Petaluma District Conservationist first started working with grape growers in Sonoma Valley 10 years ago, only one grower was using a grass cover crop. Over the years of demonstration projects and educational efforts, cover crops are now an accepted practice. For example, in Sonoma Valley, over one-half of the hillside grape growers now use a cover crop. This is an impressive improvement in the stewardship of the land

Thus we have a situation where we see real gains by many progressive grape growers, but we still face many challenges and there is much room for improvement. The loss of any soil should concern us all. So how do contemporary vineyard practices and the conservation provisions of the Food Security Act of 1985, as amended (the 1985 Act) relate to one another? The 1985 Act's conservation provisions for highly erodible land are applicable only to "agricultural commodities" which are defined as sugarcane and those crops that are produced by annual tillage. Since grape vines are certainly not

annuals, and in fact are rather long lived, they do not fall under the 1985 Act's conservation provisions.

The 1985 Act's wetland provisions do apply to land converted to production of an "agricultural commodity" or, depending upon when the conversion occurs, to land converted to a condition where such production would be possible. We do make wetland determinations on vineyards if a grower is participating in USDA programs. To date, we have only one wetlands determination on a Sonoma County vineyard.

The indirect effect of implementing the conservation provisions of the 1985 Act was to direct our Agency's staff to land subject to the conservation provisions where highly erodible lands and USDA program benefits are concentrated. Some of our staff was shifted to other areas of the State where they worked on activities generated by the 1985 Act. This was the case not only in California, but throughout the country.

When Native Americans look at the way they treat the land, they consider the effects their actions will have seven generations into the future. We, too need to look forward and continue our efforts toward sustaining the soil and agriculture in the same manner. I am sure you, like me, see our future as assisting land users to make wise choices that will sustain the soil for generations to come.

In summary, the Department recognizes that the wine industry plays an important role in the economic health of U.S. agriculture, particularly here in California. There is a great potential for growth in other states as well and

USDA will continue to do what it can to provide needed support and ensure coordination of its programs to benefit the wine and winegrape industry and growers.

Mr. Chairman and Ms Woolsey, on behalf of USDA, thank you for your continuing leadership in this area and for inviting us to participate in this hearing.

I would be happy to answer any questions.

Ms. WOOLSEY. Thank you, Pearlie.

Before I introduce the next panelist, I would like to point out that we have two other technical experts with us today. We have Dr. Rob Reginato. Is that close enough?

Mr. REGINATO. Reginato.

Ms. WOOLSEY. Reginato. He is the area director for the Pacific West for the Agricultural Research Service. And we have Dr. Deborah Golino, USDA plant ecologist for the Agricultural Research Service. So thank you for being here.

Dr. Peter Kurz is the deputy director of marketing and promotion of horticulture and tropical products for the Foreign Agricultural Service. He came to be with us today from Washington, DC. Thank you for coming, Doctor.

STATEMENT OF PETER O. KURZ, DEPUTY DIRECTOR, MARKETING, HORTICULTURAL AND TROPICAL PRODUCTS DIVISION, FOREIGN AGRICULTURE SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. KURZ. Thank you. I have to disillusion a couple people. I am not a doctor. Economist, anyway.

Mr. Chairman and Congresswoman, good afternoon. Today we can look back on some tremendous achievements which have been realized by the partnership between the Federal Government and the wine industry under the Market Promotion Program, or MPP as we call it. For example, in response to average annual promotional budgets of just over \$11 million for the 4 years from 1989 through 1992, the value of U.S. wine exports has soared nearly 80 percent from \$97 million to \$175 million.

Going back to 1986, which was the first year of the Targeted Export Assistance Program, the TEA program, which was the parent of MPP, if we can go back that far we see an even greater increase, fivefold in the export figures. This model partnership has enabled the U.S. Department of Agriculture and the wine industry, consisting of the winegrape growers, the winemaker, wineries, exporting companies and their agents, to carve out a share of the world wine market for American wines. And this accomplishment follows an earlier one which involved the competitive response of the industry to the influx of foreign wines into the United States.

After reaching a high point in 1984, these shipments of imported wine fell by—fell 57 percent by 1991. And despite the weaker dollar that has prevailed in recent years, the industry has been able to retain its share of the domestic market here. And I bring this up because the question might be asked if the wine industry was so successful in reclaiming the domestic market for U.S. product by itself, why does it need the assistance of this MPP program overseas. And the simple answer to that, simple now in particular since we have had many references to it this afternoon, is that the world market out there beyond our borders is not like the U.S. market here. Overseas we are not indeed facing fair competition. The No. 1, 2, and 3 wine producing countries in the world are members of the European Community, which accounts for 64 percent of world-wide production and over 80 percent of world wine exports. There is no doubt that the EC dominates world wine trading. But this domination has not come about by itself. The community does pro-

vide massive support for its wine industry through an array of subsidies.

Production intervention, compulsory distillation, aid for use of must, acreage reduction and export refunds. Support for wine in the EC totaled \$1.6 billion. That's the figure I have for 1992, and although export subsidies accounted for only \$82 million that year, this amount does not include substantial export subsidies which are offered by the individual member States, countries of the EC. These are almost impossible to determine. They simply don't share that information with us.

Against this overpowering presence, the U.S. industry has done a tremendous job. Today, American wines can readily be found in Japan, United Kingdom, Canada and other major world markets, as well as in dozens of tiny ones. Thanks to the persistence and commitment of the industry, we have been able to obtain a modest 2.5 percent share of world wine exports. But we feel it would be a mistake to stop here. The fact is there are tremendous gains yet to be made.

Our industry excels at producing a consistent high quality product across the full range of prices. Using a strategy whereby generic promotion heightens awareness of California, the Northwest, New York, and other States as wine producing regions, the industry then follows up with promotion of individual brands, which is absolutely critical to the sales effort in my opinion. Both the new markets such as Japan and other Asian countries where people are just now experimenting with wine, as well as in established markets where per capita wine consumption is actually decreasing in many cases, consumers will make repeat purchases based on familiarity with the brands in the market.

You can promote the wine generically, but you sell wine in a bottle with a label on it. Everybody knows that. On the whole, people are looking for a consistent, reliable product which meets their quality and price needs. U.S. industry has shown that it can supply such a product in selected world markets where there has been activity to date. The point is that we have really just begun our work and the unfair competition we face could even increase as European producers scramble for more overseas markets to offset declining per capita consumption at home in Europe.

The wine industry has had an effective Market Promotion Program for wine. Our premise at the Foreign Agricultural Service has always been that industry knows better than Government how best to organize itself for promotion, and to date I think it can be said the annual MPP applications made by the industry have reflected a lot of indepth debate and consensus building.

In addition, it is important to note that the California industry has always devoted considerable resources to its branded program, where every dollar reimbursed to a winery for an eligible expense has to be matched by a winery dollar. And we are aware that many of the participants in the branded program devote considerably more than 50 percent of their own resources to their marketing budgets. In other words, they more than provide the dollar match that's required under the regulations.

In the future, certainly in fiscal year 1994 and very likely beyond, we will be operating at funding levels greatly reduced from

years gone by. We will also have to make program adjustments as required under the recently enacted Omnibus Budget Reconciliation Act of 1993.

Certainly, all agricultural industries will need to provide cogent arguments for funding. The Foreign Agricultural Service will respond most favorably to those applications from industries willing to devote considerable levels of their own funding to the export effort and industries whose overseas marketing strategies display a clear unity of purpose and objective. I look forward to all wine industry applications and trust that our industry will continue to gain a greater share of the world wine market. Thank you.

[The prepared statement of Mr. Kurz follows:]

Statement by Peter O. Kurz
 Deputy Director of Marketing
 Horticultural and Tropical Products Division
 Foreign Agricultural Service
 U.S. Department of Agriculture
 before the
 Committee on Government Operations
 Information, Justice, Transportation,
 and Agriculture Subcommittee
 August 24, 1993

Good afternoon. Today we can look back on some tremendous achievements realized by the partnership between government and the wine industry under the Market Promotion Program, or MPP. For example, in response to average annual MPP budgets of just over eleven million dollars for the four years from 1989 to 1992, the value of U.S. wine exports has soared nearly 80 percent, from \$97 million to \$175 million. Going back to 1986, the first year of the Targeted Export Assistance Program, the increase has been even greater - five-fold. This model partnership has enabled the wine industry, consisting of the wine grape growers, the wine makers, the wineries, the exporting companies and their agents, to carve out a share of the world wine market for themselves. This accomplishment follows an earlier one, which involved the competitive response of the U.S. industry to the influx of foreign wines into the domestic market. After reaching a high point in 1984, shipments of imported wine had fallen 57 percent by 1991. And despite the weaker dollar that has prevailed in recent years, the domestic industry has been able to retain its domestic market share. The question might be asked, if the U.S. industry was so successful in reclaiming the domestic market for U.S. product, why does it need assistance from MPP overseas? The

simple answer is that the world market is not like the U.S. market - overseas, we are not facing fair competition.

The number one, two and three wine producing countries in the world are members of the European Community, which accounts for 64 percent of world wine production and over 80 percent of world wine exports. There is no doubt that the EC dominates world wine trade. But this domination has not happened by itself. The Community provides massive support for its wine industry through an array of subsidies: production intervention, compulsory distillation, aid for use of must, acreage reduction, and export refunds. Support for wine in the EC totaled \$1.6 billion in 1992, and although export subsidies accounted for only \$82 million that year, this amount does not include substantial export subsidies by individual member states, which are almost impossible to obtain.

Against this overpowering presence, the U.S. industry has done a tremendous job. Today, American wines can readily be found in Japan, the United Kingdom, Canada, and other major world markets, as well as in dozens of tiny ones. Thanks to the persistence and commitment of the industry, we have been able to obtain a modest 2.5 percent share of world wine exports. But it would be a mistake to stop here. The fact is, there are tremendous gains yet to be made. Our industry excels at producing a consistent high-quality product across the full range of prices. Using a strategy whereby generic promotion heightens

awareness of California, the Northwest, New York and other States as wine-producing regions, the industry follows up with promotion of individual brands, which is absolutely critical to sales. Both in new markets such as Japan and other Asian countries, where people are just now experimenting with wine, as well as in established markets where per capita wine consumption is actually decreasing in many cases, consumers will make repeat purchases based on familiarity with the brands in the market. On the whole, people are looking for a consistent, reliable product which meets their quality and price needs. The U.S. industry has shown that it can supply such a product in world markets where there has been promotional activity to date. The point is that we have really just begun our work, and the unfair competition we face could even increase as European producers scramble for more overseas markets to offset declining per capita consumption at home.

The wine industry has had an effective MPP promotional campaign. Our premise has always been that industry knows better than government how best to organize itself for promotion, and to date I think it can be said that the annual MPP applications made by the industry have reflected a lot of in-depth debate and consensus-building. In addition, it is important to note that the California industry has always devoted considerable resources to its branded program, where every dollar reimbursed to a winery or its agent for an eligible expense has to be matched by a company dollar. And we are aware that many branded participants

devote considerably more than fifty percent of their own resources to their marketing budgets.

In the future, that is fiscal year 1994 and beyond, we will be operating at funding levels greatly reduced from years gone by. We will also have to make program adjustments as required under the recently enacted Omnibus Budget Reconciliation Act of 1993. Certainly, all agricultural industries will need to produce cogent arguments for funding. FAS will respond most favorably to those applications which clearly reflect industries willing to devote considerable levels of their own funding to the export effort; and industries whose overseas marketing strategies display a clear unity of purpose and objective. I look forward to all wine industry applications and trust that our industry will continue to gain a greater share of the world wine market.

Ms. WOOLSEY. Thank you, Peter.

Ms. Helene Wright, the Associate Regional Director, western region, for the Animal and Plant Health Inspection Service, APHIS, A-P-H-I-S. She came to be with us today from Washington, DC. Welcome.

STATEMENT OF HELENE WRIGHT, ASSOCIATE REGIONAL DIRECTOR, WESTERN REGION, ANIMAL AND PLANT HEALTH INSPECTION SERVICE [APHIS], U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DR. ROBERT REGINATO, AREA DIRECTOR, AGRICULTURE RESEARCH SERVICE; AND DEBORAH GOLINO, PLANT PATHOLOGIST

Ms. WRIGHT. Thank you. Actually, I came from Sacramento, California.

Ms. WOOLSEY. See, I can read.

Ms. WRIGHT. Mr. Chairman and Congresswoman Woolsey, it is a pleasure to be here before you today to discuss the problem of grape phylloxera in California vineyards. My comments will briefly address the working efforts of the Animal and Plant Health Inspection Service, as well as the Agricultural Research Service, or ARS. As was said earlier, we have here today Dr. Robert Reginato, who is the ARS area director, Pacific West area, based in Albany, CA, and Ms. Deborah Golino, USDA plant pathologist with ARS at the University of California at Davis, present to answer any questions you may have regarding research.

The Animal and Plant Health Inspection Service, or APHIS, of the U.S. Department of Agriculture protects America's agriculture from countless pests and diseases that could cripple our livestock and plant industries. Through its plant protection and quarantine programs APHIS is responsible for keeping pests and diseases from entering the United States. Generally APHIS concentrates its efforts on excluding exotic agricultural pests. Where feasible and costeffective, APHIS institutes control or eradication activities such as those involving gypsy moth and Mediterranean fruit fly.

On those occasions where exotic agricultural pests become established in the United States, APHIS may implement programs which prevent the further spread. Phylloxera presents a different kind of problem, however. This insect which can attack both leaves and roots of the grape plant, is native to America east of the Rocky Mountains, and was introduced into France through movement of Native American grapevines in 1859. From France the pests spread throughout the world causing major damage. It has been known to occur in California for over 100 years.

Native American grape varieties generally have more resistance to the grape phylloxera than do European vines. Phylloxera has now spread to all grape-growing areas of the world. The pest has been controlled by grower management practices which include the use of resistant Native American varieties as root stock. Research funded by industry and conducted by various organizations including the USDA's Agricultural Research Service focuses on development of new methods of control for this pest.

Currently, ARS is involved in two programs related to phylloxera. In Fresno, a breeder evaluates root stocks for resistance to phylloxera. In Davis, pathologists identify viruses that occur in

phylloxera resistant root stocks and develop disease management strategies. Research is also conducted to develop methods to eliminate viruses from infected vines. This would allow nurseries to produce virus free phylloxera resistant plants. Given the history of this pest, its origin in North America, the ongoing research into the problem and the availability of management practices to the growers, we believe that APHIS can best assist the grape industry by protecting it from further incursions of exotic pests and diseases that could devastate the industry.

For example, in order for new cultivars of grapes to be brought into our country, they must be in quarantine for a minimum of 2 years and must go through the process of virus indexing. This process identifies any viruses which may be inadvertently introduced with these new cultivars. Further, APHIS inspectors are on duty at international airport terminals, seaports, and border stations to inspect passengers and baggage or plant and animal products that could be harboring pests or disease organisms harmful to the grape industry as well as all of agriculture.

APHIS also inspects ship cargoes, rail and truck freight, and mail from foreign countries. In addition to inspecting passengers and their baggage, agricultural inspectors make sure that international airlines handle and dispose of foreign garbage and food wastes properly. Our role is to prevent the entry of exotic agricultural pests and diseases and in instances when serious exotic pests become established to prevent their further spread through quarantine, and if possible, to control and eradicate the pests. Because phylloxera is a native pest and the best available control tool is management through the use of resistant root stock, APHIS has no plans to become involved in the control program.

We are committed to protecting the grape industry from the damage of exotic pests and diseases through our key programs. This concludes my prepared statement and I would also like to thank you for letting us speak here today.

[The prepared statement of Ms. Wright follows:]

STATEMENT OF HELENE WRIGHT
ASSOCIATE REGIONAL DIRECTOR, WESTERN REGION

UNITED STATES DEPARTMENT OF AGRICULTURE
ANIMAL AND PLANT HEALTH INSPECTION SERVICE

BEFORE THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

SUBCOMMITTEE ON INFORMATION, JUSTICE,
TRANSPORTATION AND AGRICULTURE

AUGUST 24, 1993

Mr. Chairman and members of the Subcommittee, it is a pleasure to appear before you today to discuss the problem with grape Phylloxera in California vineyards. My comments will briefly address the work and efforts of the Animal and Plant Health Inspection Service (APHIS) as well as the Agricultural Research Service (ARS). We have Dr. Robert Reginato, ARS Area Director, Pacific West Area based in Albany, California and Ms. Debra Golino, USDA plant pathologist with ARS at the University of California at Davis present to answer any questions you may have.

The Animal and Plant Health Inspection Service (APHIS) of the U.S. Department of Agriculture (USDA) protects America's agriculture from

countless pests and diseases that could cripple our livestock and plant industries. Through its Plant Protection and Quarantine (PPQ) programs, APHIS is responsible for keeping pests and diseases from entering the United States.

Generally, APHIS concentrates its efforts on excluding exotic agricultural pests. Where feasible and cost-effective, APHIS institutes control or eradication activities such as those involving gypsy moth and Mediterranean fruit fly. On those occasions where exotic agricultural pests become established in the United States, APHIS may implement programs which prevent their further spread.

Phylloxera presents a different kind of problem, however. This insect, which can attack both leaves and roots of the grape plant, is native to America east of the Rocky Mountains and was introduced into France through the movement of native American grapevines in 1859. From France the pest spread throughout the world, causing major damage. It has been known to occur in California for over 100 years. Native American grape varieties generally have more resistance to the grape Phylloxera than do European vines.

Phylloxera has now spread to all grape-growing areas of the world. The pest has been controlled by grower management practices, which include the use of resistant native American varieties as rootstock. Research funded by industry and conducted by various organizations, including the USDA's Agricultural Research Service (ARS), focuses on development of new methods of control for this pest. Currently, ARS is involved in two programs related to Phylloxera. In Fresno, a breeder evaluates rootstocks for resistance to Phylloxera. In Davis, pathologists identify viruses that occur in Phylloxera resistant rootstocks and develop disease management strategies. Research is also conducted to develop methods to eliminate viruses from infected vines. This would allow nurseries to produce virus-free, Phylloxera resistant plants.

Given the history of this pest, its origin in North America, the ongoing research into the problem and the availability of management practices to the growers, we believe that APHIS can best assist the grape industry by protecting it from further incursions of exotic pests and diseases that could devastate the industry. For example, in order for

new cultivars of grapes to be brought into our country, they must be in quarantine for a minimum of two years and must go through the process of virus indexing. This process identifies any viruses which may be inadvertently introduced with these new cultivars.

Further, APHIS inspectors are on duty at international airport terminals, seaports, and border stations to inspect passengers and baggage for plant and animal products that could be harboring pests or disease organisms harmful to the grape industry, as well as all of agriculture. APHIS also inspects ship cargoes, rail and truck freight, and mail from foreign countries. In addition to inspecting passengers and their baggage, agricultural inspectors make sure that international airlines handle and dispose of foreign garbage and food waste properly.

Our role is to prevent the entry of exotic agricultural pests and diseases and, in instances when serious exotic pests become established, to prevent their further spread through quarantine and, if possible, to control or eradicate the pests. Because Phylloxera is a native pest and the best available control tool is management through the use of

resistant rootstock, APHIS has no plans to become involved in a control program. We are committed to protecting the grape industry from the damage of exotic pests and diseases through our PPQ programs.

This concludes my prepared statement. I will be happy to respond to any questions.

Ms. WOOLSEY. Thank you, Ms. Wright.

Mr. Chairman.

Mr. CONDIT. Why don't you go ahead. Take the first round of questioning.

Ms. WOOLSEY. OK. First off, I would like to address Mr. Read. Would you describe to us how the SCS offices work with the resource conservation districts to assist the growers?

Mr. READ. Yes. Basically the only reason historically the Soil Conservation Service has established an office and provided services in a county is that there is a local resource conservation district and that local resource conservation district enters into an agreement with the Secretary of Agriculture. And basically that agreement says that the local resource conservation district will develop a long range plan and from that long range plan they will develop an annual plan of work and that annual plan of work will be the instrument that will guide the activities of the Soil Conservation Service. And the major intent of that is to make sure that the Soil Conservation Service is working on resource problems that have been identified as being significant locally. And, of course, resource conservation districts have a much broader mission in that they are the local unit of government that has the responsibility for the protection of all resources on non-Federal lands. And the Soil Conservation Service generally provides all of its technical assistance through districts.

Now, I probably should add, Ms. Woolsey, that as a result of the 1985 farm bill, namely the Food Security Act, we have not been able to work under the provisions of that agreement. Basically we have taken most of our resources and directed those resources to areas in the country that have the so-called commodity crops, as defined by the 1985 farm bill, where there are a lot of highly erodible lands.

Ms. WOOLSEY. Well, we have an SCS office here in Sonoma County. And is that because we have highly erodible lands or—

Mr. READ. We have an SCS office here in Sonoma County today because I was instrumental in convincing my boss and he convincing the Secretary of Agriculture that the criteria that was used to determine where USDA ought to have offices discriminated against places like California and particularly the grape-growing areas of California here on the north coast.

Ms. WOOLSEY. Well, thank you for doing that. That leads me right into my next question, which I talked to the other panel about. And that is the umbrella of three agencies under one and whether by doing so we will be short suiting our soil conservation efforts and our services. Could you respond to that? I said earlier that I was really concerned that by combining them under one umbrella, the natural resources programs would be threatened and overshadowed by the loan programs. Is that a concern you would have?

Mr. READ. It is a big concern of mine and I think it should be a real concern by all of us here in the room. However, I think that under Secretary Espy's administration and the latitude that he has provided to us to provide him input into his reorganization plan, which as I understand it he will announce on September 7, we probably will be able to maintain at least a presence in this area

of California, but certainly not at the level that is needed to address all of the resource needs. And as it relates to whether the SCS should be a part of a farm service agency, I would have to say that, of course, I support the Secretary in his position of having a farm service agency, but also I need to tell you that the Secretary is very sympathetic and I would anticipate when he makes his announcement on September 7, what his new organization would be, that he will recognize that there is a need for a Soil Conservation Service and a Natural Resource Agency in the Department of Agriculture to address those concerns.

Ms. WOOLSEY. OK. Our issue today and the reason we are here is to talk about how the USDA can support the wine industry and the winegrape growers and not how to give less. So would Doctor or Ms. Wright, would you like to respond at all? Have you had any interaction with Soil Conservation Services and the USDA in the reorganization that is being planned?

Ms. WRIGHT. Well, as far as APHIS is concerned, we have been pretty much out of that loop because we have a different concentration than those direct farm service groups. So at this point, I don't have a comment.

Ms. WOOLSEY. Doctor, with your USDA title, do you see that working for us when we want to support the wine industry and winegrape growers, by consolidating as we do, our change within USDA? Is that going to be useful or helpful or harmful?

Mr. KURZ. I would have to echo Ms. Wright insofar as the FAS, the Foreign Affairs Agency. We are out of that loop. We in our agency are pretty much ignorant of what kind of reorganization is planned or might be announced in September.

Ms. WOOLSEY. So you are waiting.

Mr. KURZ. To see what will become of us.

Ms. WOOLSEY. Well, we all are. Let's, all of you, if you would, respond to my concerns and my interests in a wine desk and establishing a wine desk at the USDA. And, again, I would like to emphasize that I see this as a support, ombudsman desk, a liaison, not a regulatory agency. And would you comment Mr. Read, on whether you think that would be good for the wine industry?

Mr. READ. I would be glad to. I had a long conversation the other night with the Secretary's office about that particular issue. And the major concern is the fact that there are over 300 different crops grown in the United States and there comes a question, I suppose, of equity. If we have a wine desk, why don't we have a cotton desk? However, I recognize fully that that is a policy question that really only the Secretary can deal with and with your permission I would like to go back to the Secretary and ask that he respond directly to you on that question.

[The information follows:]

No. However, the Foreign Agriculture Service's Horticultural and Tropical Products Division has two marketing and trade analysts who monitor the wine and winegrape industry.

Ms. WOOLSEY. Thank you. That would be good. We would like that, wouldn't we, Mr. Chairman?

Mr. CONDIT. Absolutely.

Ms. WOOLSEY. Would either of you like to respond to that? I don't want to be leaving you out of my conversation here.

Mr. KURZ. I would second that suggestion.

Ms. WOOLSEY. Well, let's talk about the winegrape study. From your testimony, Mr. Read, you are telling us that again the decision to postpone it since the 1990 farm bill, it seems like it is getting beyond postponement and into stopping it altogether. I really think that is an outrage for this district. I think we need it, and I think we are facing a lot of problems here. We are facing a bad economy, droughts, and disease. We really don't need that study to be postponed, and we certainly don't need it to be stopped altogether. So is there any way that you can help us with that or what is our next step?

Mr. READ. Well, in listening to the conversations that you had with the other panel, I was sitting back there wishing that the Secretary himself and maybe even the Deputy Secretary both were here to hear it firsthand. And I think they would probably be far more sympathetic. But again, this is another issue where, as you well know, it's the kind of policy thing that only the Secretary can decide and this is another issue I'd gladly take back to him when I report in tonight and ask that he respond directly to you and the committee on this particular issue.

[The information follows:]

In 1991 and 1992 Secretary Madigan did not designate the winegrape study as being one of the top studies to be conducted by the Department; therefore, the study was never conducted. The Department has not made plans, at this time, to conduct the study.

The Economic Research Service (ERS) study, which addresses the fruit and vegetable industry in general, and not specifically the winegrape industry, is still underway.

Ms. WOOLSEY. OK. You can count on me to followup also with our chairman. I yield, Mr. Chairman.

Mr. CONDIT. Mr. Read, I would like to followup on this just a little bit. When you testified, you testified that we sort of didn't make the cut. And I don't—was there a certain criteria, did they pick 12 studies and we didn't quite make it? Do you know what the criteria was?

Mr. READ. I don't know the exact criteria. The information that I have indicates that the language in the 1995 farm bill provided the Secretary with an option to select 12 in concert with the leadership of the Congress. And that's all I know.

Mr. CONDIT. OK, all right. I understand that cut clearly.

Ms. WOOLSEY. Well, I don't. I am new at this and I don't want to understand it.

Mr. CONDIT. I might just say that the Secretary—I think, you know, if Ms. Woolsey and I make our appeal to him, you also forward on what you have heard here today, I think that he will consider our request and give us a fair shake. He likes California. I don't think he has anything against the industry. And if there is any possibility of him reconsidering that, I think he will try to do that. Do you agree with that, Mr. Read?

Mr. READ. Absolutely. Mr. Chairman, if you note in my testimony, I carefully pointed out that those decisions were made back in 1992.

[The information follows:]

From time to time, we review this list of studies and may conduct the wine study as warranted by changing priorities and funding situations.

Mr. CONDIT. Right.

Mr. READ. So in fairness to the Secretary, I think he is starting with a clean slate and the door is open to go back and negotiate this with him.

Mr. CONDIT. And I think we will do that. We will also contact him on behalf of the subcommittee.

Mr. KURZ, your testimony indicated that the wine industry's MPP participation was very successful. How has the industry's compared with—this industry compared with other types of products promoted by the MPP? Did they have the same kind of performance as the wine industry did?

Mr. KURZ. Some of them certainly have. I think that—well, my area is horticulture, and horticulture has received a good share of the TEA and MPP funding over the years. Generally between 40 and 50 percent. So in some years that was upwards of maybe \$90 million. And I think that all the industries involved, and there's some 35, including just about every agricultural industry in the State of California, have a very good track record.

Mr. CONDIT. Do you think it is fair for us—MPP has become quite a controversial program within Congress, and if you watch the debate, we are a pretty easy target. People forget that there is or will not focus on the return. But do you think it is fair in reorganizing MPP that we demand a certain percentage of return for participation? I mean, you know, that you have to generate so much revenue back to the Treasury, you have to have so much growth.

Mr. KURZ. I think that would probably not be fair. I think it's probably more fair to demand a certain level of contribution or matching support from the entities participating. The problem with demanding specific results in the overseas market is that there are too many other factors at work. You know, you get situations where kiwi industry, for example, is trying to fight in Canada against massive influx of Italian kiwi fruit, which exists because subsidies were given to winegrape growers to pull up their vines in Italy and plant kiwi fruit. So there it's a case of just maintaining a market share, keeping what we have.

Mr. CONDIT. There has also been discussion of a timetable that if you can't make a—penetrate the market, the foreign market within a certain period of time, that then you should not be able to get the funds. Do you think that is a reasonable suggestion or not?

Mr. KURZ. I think that's fairly reasonable, depending on how you define a market. A market might be more than just a specific country. The market might be the wholesale trade or the food service trade or the manufacturing sector within a particular country, as opposed to roping it all together, because many of our industries will concentrate on just one facet of the industry in the market country that's using our product. Another safeguard I think that we have is that industries are putting their own time and money into this effort and many cases in considerable amounts. And they are not likely to be—to be using their own funds for any great length of time without seeing any result. In other words, I think there's kind of a built-in protected feature there, that it's a joint program. It's not just taxpayers' resources. It's industry's resources

and in many cases private companies, as well. But we—beyond that I think it's reasonable to look for some kind of results after a certain period of time. After all, the program is not, as far as I know, designed to last forever.

Mr. CONDIT. You heard earlier one of the witnesses complain about the paperwork burden for the MPP program. If you disagree with that, you are welcome to do so, but if you do agree or don't agree, can you comment to that, please?

Mr. KURZ. I would just say I've been involved with it for 5 years and I think in the early years we were given the program by the Congress to manage, it was something new for us. We came under a considerable amount of criticism particularly from the General Accounting Office for our lax management of the program. This happened a number of times in studies that they did, and so the response was to tighten up. And I would be the first to agree that maybe we tightened up more than we needed to.

Mr. CONDIT. Well, there has probably been as much paper to study the MPP and the TEA program before as paperwork that you have.

Mr. KURZ. That's right, you're right when you say this has a rather high profile, this program, in proportion to the amount of resources that are actually devoted to it.

Mr. CONDIT. Last year, the United States completed a long-term trade strategy mandated by the 1990 farm bill. Was the wine industry included in that strategy, and if not, why not?

Mr. KURZ. The wine industry was included. I think overall we found—this gets back to the earlier question that the—basically the composition of world trade and agriculture is changing. It's moving away from bulk commodity area to what we call high value products, and value added products, of which wine is certainly one, and the good news we found is that the United States is getting an increasing share of that high value trade, which itself is accounting for more and more of the world trade and agricultural products. So to that extent the wine industry has a strong track record in what has happened, which is that we are becoming a more predominant player.

Mr. CONDIT. Are you aware of the FAS study which showed an increase in the wine export to France? Some have suggested that this is in part due to a weak economy which is causing French customers to be more cost conscientious. The U.S. wine offers a quality and a good value. I am interested in your thoughts about that. Are you familiar with the study?

Mr. KURZ. I have seen the numbers, yes. There has been a phenomenal increase. Of course, we're starting from a very low base. I think probably the main reason that we've had such good results in the last year or two has been the development of the Euro-Disney complex as a market outside of Paris. They have made an outstanding effort to feature U.S. wines from California and Northwest and this is really paying off for us. Of course, our hope is that the spillover down the road will be for us to have a certain place in the French market.

Obviously, we're not going to—you know, we're not going to make converts out of the French, but I think for the wine-drinking French public, people who are interested in wine are going to be

aware of our wines and they're going to want to try them. And I think maybe sometimes the French bias against the United States is overblown. It may not be as bad as the pro-French bias that exists in the United Kingdom. So, you know, the French are wine drinkers, that means they're interested in the product.

What we want them to do is to understand that we can produce wines which are as good as the wines produced by their top chateaus and domains in France. Then we will really have accomplished something. And furthermore, the value of Euro-Disney is that it draws people from all over Europe and so they get exposed to our product.

Mr. CONDIT. So what we have to do is everywhere we go put a Disneyland in first.

Mr. KURZ. Not a bad idea.

Mr. CONDIT. Ms. Wright, could you provide us with some sort of timetable for research being conducted into creating a virus free resistant plant? I mean is there anything going on?

Ms. WRIGHT. What I would have to do is defer to Agricultural Research Service, because APHIS does not conduct research services on its own. But perhaps Mr. Reginato—

Mr. CONDIT. Perfect. Gives you an opening to speak to us.

Mr. REGINATO. Thank you, Mr. Chairman. With regards to the virus work, that is being conducted at Davis, on the campus of Davis by Dr. Deborah Golino, and I will have her respond to the question on the virus. I might also mention that we're doing work with the grape phylloxera in Fresno, and as Ms. Wright has said, where we are working to look at resistant root stocks and currently have more than 100 different root stocks that we're evaluating. It's a very modest program and the program at Davis is very modest also. But we are making some progress.

And with your permission, I'd like to have Dr. Golino tell you a little bit about her work on the grape viruses also.

Mr. CONDIT. Absolutely.

Ms. GOLINO. My area of expertise is the grapevine viruses and virus diseases. There is two aspects of the program you might be interested in.

Mr. CONDIT. Absolutely.

Ms. GOLINO. One is developing new molecular techniques for the detection, and also for the elimination of virus from important stocks such as the people who testified earlier discussed, genetically resistant grapevine stocks, new varieties from around the world, and also European clonal selections that might improve wine quality here in the United States. As those materials come in through the new importation center at Davis, new technology is needed to make them move through that series of importations that the folks from APHIS supervise. And that's one of the areas of my research, to make that whole process go more quickly and to be more streamlined using new technology.

Then in addition to that, I work very closely with a breeder down in Fresno, a USDA ARS breeder, and a breeder at Davis who is a UC scientist, and we're working to understand how some grapevines resist virus diseases and diseases like Pierce's disease, which we refer to as a virus-like disease, so that we can better incor-

porate that resistance both into existing grapevines using biotechniques and into root stocks and new grapevine varieties.

Mr. CONDIT. OK. Thank you very much. That pretty much concludes my questions. Do you have any additional questions?

Ms. WOOLSEY. No additional questions.

Mr. CONDIT. I just want to make one general comment. I know all of you have been here all day and I don't want this to sound like a lecture, because it is certainly not, and you are welcome to comment and sort of jab me back if you would like to do so when I am finished. But I hail from California. I live in San Joaquin Valley. We have major agricultural interests there. And given the discussion today about the unfair playing field, I know I have spoken to the Secretary about this very issue and he has indicated his support. He is well aware of California agriculture. He is very knowledgeable about what we do here. He is a graduate of one of the major universities here in northern California, and I think we will get a fair shake in California from the Secretary of Agriculture.

But I must say that we in agriculture get just a bit defensive. We have a difficult time with what people have referred to this perception that we are some kind of entitlement program. And we have to do everything that we can do to take that perception away. And those of you who help us in the agriculture industry I think could be very helpful in helping us do that. We are a major contributor to the State Treasury here in California. The wine industry and all other agricultural industries are as well. We contribute more than most industries. And our frustration with the wine industry today, I can bring you over to where we live and we have frustrations with the vegetables and the trees and other things as well. But I guess what we really are saying to the department in its reorganization, we in agriculture, we in the wine industry, just want to be treated fair. We want a fair chance. And we would like to have the opportunity to remove this perception that we are some kind of entitlement program.

We are not a welfare program. We generate tremendous, tremendous money back to the U.S. Treasury and to the economy of California. The spinoff benefit is unparallel of any other industry in this State. So I don't—forgive me, I just feel like after listening to this today, I needed to explain that. Because I am a strong advocate of this industry. I think it is a great industry for this State, for this country, and I am going to, every chance I get, promote that.

And I know in saying this, Mr. Read made the point that this is a new administration, this is a new Secretary, and I feel a kinship to him. We served on the Agriculture Committee together. He sat next to me and I feel that we are going to get this fair shake. And I know that my colleague to the left here, Ms. Woolsey and I are going to push very hard to see that we get a fair shake. And we do appreciate you being here. You are welcome to respond to that, Mr. Read, if you like, and Mr. Kurz. If not, it is not necessary, but we do appreciate you being here. Thank you very much.

Do you have anything else?

Ms. WOOLSEY. Well, Mr. Chairman, I want to thank our witnesses and I thank you for coming here today and for speaking on these important issues and being so well-versed and so knowledgeable.

able. And I thank you again, Chairman Condit, for giving me the opportunity to hold this important hearing. I also want to thank the city of Rohnert Park for permitting us to hold this hearing in their chambers. The staff here at city hall has been very accommodating and helpful and thank you to them.

I believe the hearing has been a great success. It is a beginning. I look forward to taking this knowledge back to Washington and working with you, Chairman Condit, and putting this information to work for the wine industry and the winegrape growers in the State of California and in this Nation. Thank you all for attending. I surely appreciate your interests. This is a very important issue in this area. Thanks a lot.

Mr. CONDIT. I would just, in closing, say that anyone who wants to add additional information to the record has 10 days to submit it and we would be happy to include it in the record. Those of you who did not testify, if you have anything you would like to add, supporting information, we would be happy to take that in a 10-day period. Thank you very much. The meeting is adjourned.

[Whereupon, at 7:19 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDICES

Appendix 1.—MATERIAL SUBMITTED FROM THE U.S. DEPARTMENT OF AGRICULTURE

The attached listing provides a ranking of studies and reports in the Food, Agriculture, Conservation, and Trade Act of 1990. The status information listed under Comments was compiled in February 1992 and sent to the House and Senate Agriculture Committees. A more recent status report has not been completed.

The Department tried to conserve scarce resources by concentrating on those studies and reports that are critical to implementing the Act. In addition to implementing priority one studies and reports, other studies and reports are carried out if funds are available.

February 24, 1992

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FACT ACT STUDIES AND REPORTS

<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USOA</u> <u>PRIORITY</u>	<u>COMMENTS</u>
Milk Inventory Management Program Report (ASCS)	101	1	Completed. Was due 6/15/91. Report was issued on 6/14/91. Total cost was \$110,000, comprised of staff cost from ERS--\$39,000, EAS--\$8,000, ASCS--\$29,000, OBPA-- \$7,000, FAS--\$9,000, FNS--\$6,000 & AMS--\$12,000.
Minnesota-Wisconsin Price Series Compilation of Data and Report Reform (AMS)	103	1	Completed report released 1/25/91. Was due 10/01/91. Work was begun prior to passage of the Farm Bill. In FY 1991, \$121,000 of Section 32 (marketing agreements and orders account) was used to implement. FY 1992 Section 32 funds include \$173,000.
Response to National Research Council Report (FS/CSRS)	1241(d)	1	Completed. Was due 5/28/91. Implemented in FY 1991 with \$61,000 in FS Forest Research funds and \$6,000 from CSRS. Report has been completed and is awaiting final clearance. Transmittal letter to Congress is being drafted.
Plan for Awarding Plant Genome Mapping Grants (CSRS/ARS)	1671(d)	1	Completed. Was due 2/26/91. Report sent to Congress March 7, 1991. Nominal additional cost incurred.
Review and Report on State Compliance with Regulations and Standards for Automated Data Processing in the Food Stamp Program (FNS)	1763	1	Will be implemented with available Food Stamp Program Research funds. Due 10/1/93. Was not implemented in FY 1991 as planned. FY 1992 cost estimate is \$1,200,000.

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<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>COMMENTS</u>
Estimate of Benefits and Costs Associated with Improved Grain Quality and a Related Finding (FGIS/ERS)	2003 & 2005	1	Will be implemented. DUE: As soon as practicable after enactment. Work was begun prior to passage of Farm Bill. FY 1990 costs were \$225,000. In FY 1991, \$428,000 was obligated. For FY 1992, \$246,000 is the planned cost for completion of the study.
Export Assistance Report (FAS)	1531	1	Will be implemented. DUE: Quarterly. Has been published quarterly since 1986. Would be continued at an estimated annual cost to FAS Salaries and Expenses of \$6,000.
School Lunch Cost of Production and Participation Study and Report (FNS)	1779 (b):(c)(2) &(c)(3)	2	Will be partially implemented but differs from mandated schedule due to timing of funding. Mandate is due 10/1/92 for Interim Report, 10/1/93 date of final report. FNS will send an interim report, and complete the eligible non-participants study (section 1779(b)(1)(D)). The cost of meal production study (section 1779(b)(1)(A)) will be started and partially funded with \$750,000 in additional Child Nutrition Research funds. Sections 1779(b)(1)(B), (C) & (E) would be completed as funds become available. FY 1992 appropriation provides \$750,000 as described above. Timing of studies is under discussion.
Study and Report on Easements on Wetlands on FmHA Inventory Property (FmHA)	1813(h)	2	Completed. Was due 1/31/91. Report sent to Congress February 1991. Cost was less than \$10,000 in FmHA Salaries and Expenses in FY 1991.

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<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>COMMENTS</u>
Wheat Loans/Purchases Adjustment Report (ASCS)	301	2	Completed. Reports for 1992 crops are in clearance process. Must be submitted to Congress for program to operate as desired. Has been required since 1986 and will entail no additional costs to ASCS.
Corn Loans/Purchases Adjustment Report (ASCS)	401	2	Completed. Reports for 1992 crops are in clearance process. Must be submitted to Congress for program to be operated as desired. Has been required since 1986 and will entail no additional costs to ASCS.
Sugar Support Price Adjustment Report (ASCS)	901	2	Will be implemented in FY 1992 as part of the Impact Statement for the Regulations making the adjustment. Must be submitted to Congress if price support level is not raised above the statutory minimum. Has been required since 1986 and will entail no additional costs to ASCS.
Determination of Agricultural Commodities for Disposition to Foreign Counties (OGSM)	1512 <Sec. 401>	2	Will be implemented. DUE: Congressional notification as needed. Nominal costs to prepare letter. One notification has been sent to Congress in FY 1991.
Study of North American Free Trade Area (ERS/FAS)	1551	2	Will be implemented in FY 1992. Study was due 3/31/91 Interim review was transmitted to Congress in April 1991. Estimated costs are ERS--\$32,000 & FAS--\$28,000.

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<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USDA PRIORITY</u>	<u>AGENCY PREFERENCE & COMMENTS</u>
Evaluation of Title XII Programs and Comprehensive Report (ERS/SCS)	1444	1	Will not be implemented. DUE: 6/30/93 Costs would be substantial.
School Lunch Bonus Commodity Trends Study and Report (FNS)	1779(a); (c)(1)&(3)	1	Will be implemented with Food Program Administration funds for less than \$50,000. Interim report was due 10/1/91 and was sent to Congress 10/91. Final Report is due 10/01/93.
Report on Commissions, Fees, or Other Compensation paid to Agents, Brokers or Other Representatives of Importers or Importing Countries (OGSM)	1512	1	Will be implemented. DUE: Annually. Estimated annual cost of \$5,000.
National Research Initiative Reports (CSRS)	1615	1	Will be implemented in FY 1992 with available CSRS funds. DUE: 1/01 annually. Estimated annual cost is \$30,000. Report in progress.
Reports on Sustainable Agri- Programs (CSRS/ES/ARS)	1622(b)	1	Will be implemented in FY 1992 with CSRS funds. DUE: 4/01/91 and annually thereafter. Estimated annual cost is \$30,000.
Multiple Component Pricing Study (AMS/ERS)	116	2	Will not be implemented. DUE: 5/01/91.

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<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>AGENCY PREFERENCE &</u> <u>COMMENTS</u>
Survey of Program Participants (ASCS)	1148	2	Will not be implemented. DUE: 1/31/93.
Study of the Fruit and Vegetable Industry (ERS)	1304	2	Will be implemented. DUE: 5/01/92. Study has been initiated and is expected to be completed by end of December, 1992.
Cosmetic Appearance Research Report (AMS)	1352(f)	2	Will not be implemented. DUE: 9/30/92--Report on Marketing Policy Research; 9/30/93--Report on Market Research Projects. As requested by the House 1992 Appropriations Committee Report, AMS will complete a report due March 1992 on the need for additional research on whether grade standards and other regulations governing cosmetic appearance affect pesticide use in the production of perishable commodities. It also stated that AMS should identify existing research that is completed or ongoing in this regard.
Wine and Winegrape Industry Study (ERS)	1362	2	Will not be implemented. DUE: 12/31/91.
Availability of Pest Control Methods (ARS/APHIS/ES)	1495	2	Will not be implemented. DUE: 5/28/91.
Compilation of Annual Reports by Agriculture Attaches (FAS)	1532	2	Will not be implemented. DUE: Annually.
Study of Economic Impact of Animal Damage to Aquaculture (ERS/APHIS/CSRS)	1614(a)	2	Will not be implemented. DUE: 1/01/92.

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<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>AGENCY PREFERENCE &</u> <u>COMMENTS</u>
Report on Projected Needs for Genetics Resources Programs (ARS)	1633(e)	2	Completed. Was due 11/28/91. Implemented with available funds. Nominal costs incurred. Report is in clearance process.
Reports on Research on Production, Preparation, Processing, Handling, and Storage of Agricultural Products (CSRS)	1646	2	Will not be implemented. DUE: 11/28/91.
Special Grant to Study Constraints on Agricultural Trade (CSRS)	1678	2	Will not be implemented. DUE: 5/28/92.
Report on Cotton Research and Promotion (AMS)	1998(a) and (c)	2	Will be implemented with funds from industry. DUE: One year after the date on which imports are subject to assessments.
Studies of Global Climate Change, Agriculture, and Forestry (ARS/ERS/FS/CSRS/SCS)	2403	2	Will be implemented. Studies underway which will form basis for reports. DUE: 11/28/93 and 11/28/96 with interim reports due annually.
Recordkeeping and Other Paperwork Reduction Report (OTRM)	2516	2	Will not be implemented. DUE: 1/28/92. NOTE: The Secretary's "Easy Access" initiative is aimed at alleviating the problem of excessive paperwork imposed on farmers by USDA programs. Eight different pilot projects will be evaluated in the spring and summer and recommendations will be made to the Secretary to expand and/or revise successful projects.

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<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>AGENCY PREFERENCE &</u> <u>COMMENTS</u>
Study of the Transportation of Fertilizer and Agriculture Chemicals (AMS)	2517	2	Will not be implemented. DUE: 5/01/92.
Evaluation of CCC Dairy Product Acquisitions and Disposals (ASCS)	105	2	Will be implemented. Information is already reported monthly by the ASCS Dairy Division. DUE: Quarterly.
Secretary's Report on Recommendations of the National Agricultural Research and Extension User's Advisory Board (CSRS)	1604	2	Will be implemented with available funds in FY 1992. DUE: Not later than 2/01 annually. Cost will be nominal.
Agriculture and Nonagriculture Pesticide Use Reports (NASS)	1491(f)	2	Will be partially implemented with \$100,000 in FY 1992 funds. DUE: 4/01 annually beginning FY 1992.
Military Distribution of Food Aid (OGSM/AID)	1512	2	Will be implemented as needed. DUE: Not later than 30 days after authorization.
Long Term Agricultural Trade Strategy Report (FAS)	1531	2	Will not be implemented. DUE: Initial report due prior to 10/01/91. Subsequent Report shall be submitted prior to 10/01 of each third fiscal year occurring after FY 1992. Annual updates of the report are due in each of the two years following submission of the report. The updates shall be submitted with the Budget. Long-term strategy is part of FAS's mission.

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<u>STUDY NAME</u> (agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>AGENCY PREFERENCE &</u> <u>COMMENTS</u>
Report on Foreign Debt Burdens (OGSM/ASCS)	1542(e)(2)	2	Will not be implemented. DUE: Semi-annually.
Report on National Genetics Resources Programs (ARS/CSRS)	1633(d)	2	Will be implemented with available funds in FY 1992. DUE: Biennially. Costs are considered routine in the conduct of the program.
Report on Plant Genome Mapping Grants (ARS)	1671(g)	2	Completed with available funds in FY 1992. DUE: Annually. Costs are considered routine in the conduct of the program. Report in internal review process.
Program Plan for National Centers for Agricultural Product Quality Research (CSRS)	1675(d)	2	Will not be implemented. DUE: Every three years.
Estimates of Types and Quantities of Commodities Available for Emergency Food Assistance Act Donations (FNS)	1772(e)	2	Will be implemented with available Food Program Administration funds each year. DUE: 10/01 annually. Less than \$50,000.
Independent Evaluation of Fluid Milk Promotion Program (AMS)	1999H(m)	2	Pending. DUE: Annually. Note: Evaluation to be arranged by USDA. Would be implemented if the fluid milk promotion program is approved and funded by industry.
Special Reports Based on Producer Surveys (NASS)	2514(b)	2	Will be partially implemented. DUE: Annually. Budget includes \$500,000 for reports of 11 fresh market vegetables, 2 processed vegetables, 2 fruits & maple syrup.

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<u>STUDY NAME</u> (Agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>AGENCY PREFERENCE</u> <u>COMMENTS</u>
Reports Based on Survey of Producers for Information on Fruit and Nut Tree Inventories (NASS)	2514(c)	2	Will not be implemented in FY 1992 unless budget savings provide unused funds at the end of the year. DUE: Every three to five years as determined by the Secretary. May be done in FY 1993 if funds are allocated.
Land Use for Expiring Conservation Reserve Program Contracts (ASCS)	1437	3	Will not be implemented. DUE: 12/31/93.
Agriculture Water Quality Incentives (ASCS)	1439 See 1238F)	3	Will not be implemented. DUE: 9/30/92 for Interim Report. 9/30/94 for Final Report.
Environmental Quality Policy Statement Report (ACEQ)	1473(c)	3	Will not be implemented. DUE: 1/31/92.
Soil and Water Activities Report (SCS)	1482(d)	3	Will be implemented. DUE: 1/31/92.
Agriculture Practices and Water Resources Data Base Development Report (NAL)	1485(b)	3	Will not be implemented. DUE: 8/25/91.
World Livestock Market Price Information (FAS)	1545	3	Will not be implemented. DUE: 11/24/91.
Rose and Flower Study (ERS/FAS)	1552	3	Will not be implemented. DUE: 5/28/91.
Commodity Transportation and Technology Assessment and Report (AMS/ERS)	1553	3	Will not be implemented. DUE: 7/28/91.

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<u>STUDY NAME</u> (Agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>AGENCY PREFERENCE</u> <u>COMMENTS</u>
Report on Language Proficiency and Evaluation of FAS Officers (FAS)	1556	3	Will not be implemented. DUE: 5/28/91.
Study of Animal Care Delivery System (APHIS/ES/ARS/NAS)	1611(a)	3	Will not be implemented. DUE: No date specified.
Study of USDA Affirmative Action Programs, Appeals Process, and Contracting Practices (OAE)	2501(d)	3	Will not be implemented. DUE: 11/28/91.
Report on Sugar Imports from Cuba (FAS/ASCS)	903(2)	3	Will not be implemented. DUE: 2/26/91 and 8/01 Annually thereafter through 1995.
Report on Quota Allocations to Countries Importing Sugar (FAS/ASCS)	903(2)	3	Will not be implemented. DUE: 1/01 annually beginning with the quota year for sugar imports after the 1990-1991 quota year.
Financial Impact Study (ASCS)	1147	3	Will not be implemented. DUE: Annually, not later than date of final announcement for programs.
Promotion of Agricultural Exports to Emerging Democracies (OGSM)	1542(d)(6)	3	Will not be implemented. DUE: Annually. Estimated annual cost to OGSM is \$25,000.
Report on Section 22 Suspension or Termination (FAS/ERS/FmHA)	1554	3	Will be implemented if necessary. DUE: Congressional notification when necessary.

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<u>STUDY NAME</u> (Agency)	<u>SECTION #</u>	<u>USDA</u> <u>PRIORITY</u>	<u>AGENCY PREFERENCE</u> <u>COMMENTS</u>
Tobacco Export Report (FAS)	1557	3	Will be implemented. Estimated cost \$50-100,000 per year for FAS.
Report on Origin of Exported Peanuts (FAS)	1558	3	Will be implemented. DUE: Annually. Estimated cost is \$14,000 for FY 1991 and \$7,000 for FY 1992 for FAS.
Grain Quality Coordinator Investigations and Communications (FGIS)	2002(b)(5)	3	Will be implemented. DUE: As soon as practicable after enactment. Coordinator appointed and interagency committee formed. Members of committee serve in collateral duty capacity.
Review and Report on USDA Efforts for Socially Disadvantaged Farmers and Ranchers (OAE)	2501(c)	3	Will not be implemented. DUE: 9/30/92 and every two years thereafter.
Report on Return on Assets (ERS)	2512(b)	3	Will not be implemented. DUE: Annually.
System for Informing Consumers of the Amount Paid Producers for Each Primary Commodity Contained in Retail Products (ERS)	2513	3	Will not be implemented. DUE: Annually.

Appendix 2.—MATERIAL SUBMITTED FOR THE HEARING RECORD

**SUTTER
HOME**



P.O. BOX 248 ST. HELENA, CA 94574

TEL. 707 / 963 3104

August 27, 1993

Lynn Woolsey
Member of Congress
Congress of the United States
House of Representatives
439 Cannon Building
Washington, DC 20515-0506

Dear Representative Woolsey

Thank you for holding the hearing on the role of USDA in the wine industry. I would like to add my comments to the testimony and make some general comments as well.

On the issue of continued MPP funding, I would urge you not to eliminate the so-called larger wineries from the program. Although there is one large winery in the industry, it is not a giant of the proportions of IBM or General Motors. The rest of the so-called large wineries are only large in the context of the wine industry and not on the scale of U. S. industry generally. If the purpose of MPP is to expand U. S. exports and decrease the trade deficit, the larger wineries are critical to these efforts.

We also support the need for assistance with grape research. Grape production is seriously threatened not only by phylloxera but other pests as well. U. C. Davis, once a world-wide leader in grape and wine research, is slipping to third-world status because a lack of funding is leading to the dispersal of their world-class team of researchers.

We support the efforts to create a "wine desk" within the USDA. In fact, we hope that some day soon, the wine and grape industries will become totally under the aegis of USDA. We do not belong with firearms or terrorists - domestic or foreign. Wine is an agricultural product and not the concoction of some devilish witches brew as some people would have us believe.

Lynn Woolsey
August 27, 1993
Page Two


Once again, thank you for bringing this hearing to the place where it belongs, the wine country. I wish you well in your efforts to support the wine industry and to ease us under the umbrella of the USDA.

Sincerely,



Louis "Bob" Trinchero
Chairman and CEO

LT:jp


 AGvocate

P.O. Box 158, Rio Nido, CA 95471 • (707) 869-9003

TO: Nancy Read, Congresswoman Lynn Woolsey's Office

FROM: Glenda Humiston, Sotoyome-Santa Rosa Resource Conservation District

DATE: August 22, 1993

RE: Subcommittee Hearing on U.S. Wine Industry and Its Relationship With USDA

Thank you for getting information to me so promptly concerning this hearing. As I mentioned to you on August 19, I am very concerned that the current composition of the panels will leave some very important testimony unheard. Although your office has put together some excellent speakers concerning marketing, phylloxera, research efforts and issues surrounding potential benefits from moderate alcohol use, there is no one representing any of the local Resource Conservation Districts. Their "hands-on" perspective, of how USDA actually delivers programs to the field, is vital and cannot realistically be represented by USDA staff. I appreciate your effort to ensure that this omission does not occur.

Basically, there are three areas that I feel must be addressed. These are all current USDA programs that are not meeting the needs of the wine industry, as well as much of the rest of California agriculture

1) 1990 Farm Bill -- Food Security Act (FSA)

The FSA created volumes of new paperwork for Soil Conservation Service (SCS) personnel, with very questionable benefits accrued. This district lost the services of a key field specialist for over seven months last year when he was reassigned to another office, *exclusively to help them catch up on FSA paperwork*.

This individual is responsible for delivery of much of the conservation planning and implementation to grapegrowers in this county. His absence created a backlog of requests for conservation plans and resulted in several vineyards being installed improperly. Subsequent heavy winter rains then led to several small landslides and unnecessary erosion, creating serious water quality degradation on some streams.

This same story can be repeated in different variations throughout the state. Current staffing levels for important soil conservation and resource management work are less than adequate as is; we cannot afford to lose staff needlessly.

...working for sustainable policies

2) ASCS -- Agricultural Conservation Program (ACP)

The Agricultural Stabilization and Conservation Service provide funding, on a cost-share basis, for practices aimed at improving soil and water resources. The ACP is the program most often used and needs to be seriously examined concerning its criteria, delivery mechanisms and organizational structure

Criteria: Of chief concern here is the fact that farmers can qualify for ACP funds *only after they already have an erosion problem*. In other words, it is not permissible, under current statute to provide any cost-share funding for prevention of erosion or other potential environmental degradation. This program needs to shift focus toward prevention of erosion problems, thereby increasing achievement of environmental objectives and, potentially, saving large sums of money. Fixing an established problem is generally far more costly than preventative methodologies. Examination must also be given to current funding limits; they do not reflect realistic costs in today's economy.

Delivery Mechanisms: In order to receive ACP funds, or any ASCS cost-share funds, a farmer must apply to ASCS. They then schedule a site visit by SCS staff to evaluate the situation and recommend any actions. This recommendation is then voted on by a committee of local landowners, who must approve any funding disbursement. Two problems are frequently seen with this procedure.

First, ASCS staff do not always conduct an adequate pre-screening, resulting in a significant amount of wasted time by SCS field personnel. At a minimum, better coordination is needed between these agencies; however, serious consideration should be given to moving the application and prescreening duties to SCS personnel. This would avoid delays in delivery, inefficient use of personnel and recognize the fact that SCS personnel are responsible for the initial evaluation and design of any practices to be potentially funded.

Second, the County Committees can be narrowly focused on a particular facet of the agricultural industry and prone to allowing personal relationships factor into funding decisions. For example, in this county the committee is composed of individuals from the dairy and livestock industries. These then are the only industries that tend to receive ACP funding. It has been very difficult to get funding delivered to the vineyard and specialty crop sectors. The problem is perpetuated by the committee selection methods that allows only individuals who have participated in the program to vote for new or continuing directors.

Organizational Structure: The descriptions of SCS and ASCS duties [attached] show a definite overlap. Given current budget realities, serious consideration should be given to restructuring these agencies and, perhaps, even discontinuing one. However, when this option is looked at, please keep in mind that we need technical people in the field helping farmers improve their practices -- we do not need programs that are simply handing out money. Consider eliminating ASCS programs entirely and putting the funds saved into expanded delivery of resource conservation and development programs, particularly watershed planning efforts, currently handled by SCS.

3) Farmers Home Administration (FmHA) Loan Programs:

FmHA Operating Loan and Farm Ownership Guarantees are to provide family farmers and ranchers with financing for working capital needs, equipment purchases, debt refinances and farm real estate purchases at competitive rates and terms. However, the current definition of a "family farm" [attached] leaves virtually all of the North Bay farmers ineligible for this program.

The vineyard and specialty crop industries, as well as many dairy operations, in this area are small family farming operations; however, the intensive nature of their production activities forces them to employ more than the 2-3 full-time employees allowed by FmHA. This problem is true for virtually all fruit and vegetable producers, nationally. Large commodity crops, typical of the midwest, utilize a high level of mechanization and can easily meet this standard when farming thousands of acres. This definition must be changed to reflect the needs of diverse agricultural industries -- it is ludicrous to think that the same criteria will work for Iowa corn farmers, Colorado livestock ranchers and a California grapegrower.

Hopefully, this will clarify the issues we were discussing the other night. It appears that the local panel will cover the other areas of concern.

I am also attaching a copy of testimony that I gave to Secretary Espy during his California tour in June. It discusses the proposed reorganization of USDA in more general terms, with some specific recommendations. Please feel free to contact me if you need further clarification on any of these issues.

I will be attending the hearing on Tuesday.

cc: Julie Spezia, California Association of Resource Conservation Districts
Pearlie Reed, Soil Conservation Service

7. COOPERATING AGENCIES AND ORGANIZATIONS

7.1 FEDERAL AGENCIES

7.1.1 Agencies of USDA

The Soil Conservation Service provides technical and financial assistance to landowners and operators for soil and water conservation and land use planning measures. The assistance for privately owned land is provided through locally organized Resource Conservation Districts. SCS provides its services to districts through memorandums of understanding under PL-46. All districts have memos of understanding with the Secretary of Agriculture.

SCS { Among the programs for which SCS has responsibility are: 1) the National Cooperative Soil Survey--provides maps and data needed for land use planning; 2) the Water Bank Program--provides technical expertise in matters included in the program's area; 3) nonpoint source pollution control program--recommends "best management practices" and evaluates the success of the practices in controlling pollution; 4) Resources Conservation Act activities--allows public participation in what is done to conserve the nation's resources; 5) the Resource Conservation and Development Program--attempts to improve environmental, social, and economic conditions in rural areas; and 6) the Small Watersheds Program--provides planning assistance for locally sponsored projects to control flooding and improve irrigation and/or drainage.

ASCS { The Agricultural Stabilization and Conservation Service provides funding on a cost-share basis for practices aimed at improving soil and water resources. Funding is provided under such programs as: 1) Agricultural Conservation Program (ACP)--for conservation and environmental measures under annual and long-term agreements; 2) Water Bank--for preserving, restoring, and improving migratory waterfowl nesting and breeding areas; 3) Emergency Conservation Measures--for repairing severe damage to range and farmland caused by natural disasters.

The Economic Statistics and Cooperative Service (ESCS) helps farmers to help themselves through cooperative organizations. It conducts studies to support cooperatives that market farm products, purchase production supplies, and perform related business services; and it provides technical assistance and research to improve cooperative performance.

The Farmers Home Administration (FmHA) makes loans to farmers and ranchers for soil and water resource conservation and development and recreational programs.

The Forest Service provides assistance to private forest landowners and operators and processors of primary forest products in managing their operations for maximum efficiency with wise conservation. The Forest Service also cooperates with the California Department of Forestry, the SCS, and local water conservation districts to control fires, stabilize gullies, improve forest growth, and prevent floods.

FmHA Farmer Programs (FP) Loan Guarantees

Farmers Home Administration (FmHA) Operating Loan (OL) and Farm Ownership (FO) Guarantees are to provide family farmers and ranchers with financing for working capital needs, equipment purchases, debt refinance and farm real estate purchases at competitive rates and terms.

Eligible Applicants

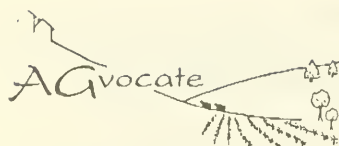
Eligible applicants are individuals; corporations and partnership that; would not be able to obtain financing without FmHA participation; have legal capacity; have sufficient experience to be successful; are owned or operated by U.S. citizens or legal resident aliens; rely predominantly on farm income and operate not larger than a FAMILY FARM.

Family Farm

Family farms are recognized in the community as a farm rather than a rural residence (No hobby farms); generate enough income to pay debts; are managed by the borrower; and have a substantial amount of its labor requirements provided by the borrower (Generally, not more than 2-3 full-time employees on a year-around basis. Partnership operations are sometimes allowed a slightly higher limit).

Product Features

	OL non-revolving Operating Loan	OL revolving Line of Credit	OL refinance & equip. purchase	FO real estate purchase or refinance
Maximum Term	Funds advanced within 1 year; repaid in 18 mos.	Funds advanced within 3 years; repaid in 7 yrs	7 years	40 years
Processing Time	7 to 21 days from the date of a completed application. In order to expedite processing coordinate with the local FmHA office.			
Maximum Guarantee	90%			
Interest Rate	<ul style="list-style-type: none"> * Government subsidy available, through the Interest Assistance Program, maximum interest rate subsidy currently 4%. * Variable or Fixed Rate, but may not exceed rate the lender charges its average farm customer by size category. 			
Fees	* 0% for Interest Assistance, 1% for others. The fee applies to the guaranteed portion of the loan.			
Maximum Amount	<ul style="list-style-type: none"> * The guarantee amount is limited to \$400,000 for OL and \$300,00 FO. * FmHA officials in the County Office have authority up to \$350,000 for OL and \$260,000 for FO guarantees. 			
Other	<ul style="list-style-type: none"> * OL revolving funds may only be used for annual operating expenses. * OL operating funds may be used for annual operating expenses and equipment purchases but not making principal payments on real estate. * Multiple guarantees must have separate and identifiable collateral. * Interest Assistance available to help generate at least 10% cash flow. * FmHA OL and FO guarantees must be reviewed by a FmHA committee. 			



P.O. Box 158, Rio Nido, CA 95471 • (707) 869-9003

To: Honorable Mike Espy, Secretary of Agriculture

Date: June 2, 1993

Subject: Enhancing USDA and meeting the needs of agriculture

Enhancing the ability of farmers to move to a more sustainable form of agriculture is long overdue; I applaud this administration for making such an effort. Not only is a stable food supply vital to our nation, but agriculture is important in maintaining our standard of living and can furnish significant environmental benefits. In order to achieve this, we must move toward the full realization that sustainability requires both **environmental sensitivity** and **economic viability**.

Past programs have often dealt with these two components as separate, and competing, segments. This approach has created conflicting, and confusing, requirements -- without necessarily accomplishing desired objectives. It is time to replace predetermined, excessively defined, and required "practices" with **stated aims and objectives for resource management**. This shift would recognize the diverse array of conditions (soils, water, climate, markets, etc.), that face every farmer, and allow them to be factored into the development of a conservation plan that achieves stated resource management goals.

The 1985 & 1990 farm bills are good examples of top-down management and lack of goals in action. Although Congress passed some sound proposals, the implementing agencies then turned them into poorly written and ill-conceived administrative manuals -- heavy on detail and virtually absent of any defined objectives. The result: rather than working with farmers in the field, field staff have spent untold, and completely wasted days filling out new paperwork describing their attempts to make "round" practices fit "square" holes. If it had been known what outcomes were desired, they could have developed simple and flexible implementation strategies. Such strategies would have fit local conditions and needs, at a fraction of the cost, and with far more public support.

All conservation programs (technical and financial) for private lands should be housed with one agency. It is ridiculous to have various agencies, such as USFS, ASCS, and SCS working with the same clientele, especially when the objectives should be the same. The priorities and oversight of such an agency should be vested primarily in local hands, such as Resource Conservation Districts, for quality control prevention of waste.

Unfortunately, top managers often feel "protected" if they spell out every policy, in very detailed procedures and regulations. We need fewer manuals and policies that hamstring flexibility, common sense, and creativity. We need to focus on what the goal is, monitor if we are moving toward it, and unleash creativity to move there even faster.

— ...working for sustainable policies

Rather than entrenched bureaucracy, we need to trust in local control and oversight to minimize waste and abuse.

Voluntary and empowering programs should be encouraged. The USDA should focus on strategies that create a climate where people *want* to protect and enhance their land, financial and human resources. It is important to recognize that there is not enough wealth to provide for all the carrots and sticks needed to manipulate people to do the right thing, particularly if negative incentives are also present. This will mean providing policies that emphasize sustainability, and the technical expertise needed to design and implement the resulting plans.

Such policies should include:

- ♦ **consolidating agencies as much as possible** (i.e., USFS and BLM should be one agency, responsible for managing all public resource lands);
- ♦ **housing all conservation programs for private lands with one agency** (i.e. USFS, ASCS and SCS should not all be working with the same clientele on the same project -- define their separate duties);
- ♦ **expanding the scope and delivery of cooperative extension services:** in particular: encourage them to be a partner in resource management planning as it relates to agricultural practices, economic and rural development;
- ♦ **reduce or, better yet, remove inheritance taxes on farmland** that remains in realistic agricultural production under new heirs -- replace this with a comparable development tax on all prime farmland being converted to any other use. This may sound harsh, however, the loss of prime farmland in this country is easily one of the biggest threats to our long-term security. Fiscalization of land use is threatening economic stability throughout the country and should be studied closely. (Please see the attached articles)

What should be evident by now, is that this is no small task that you have undertaken. I applaud you for your efforts and look forward to the fruits of your effort. Feel free to call on me for any future assistance I may offer.

We have worked very hard to create sustainable attitudes and practices in Sonoma County for over a decade now -- with great results. Please arrange a visit to Sonoma County in the future and allow me to show off that which Luther Burbank called "the chosen spot of all the earth."

Sincerely,

Glenda Humiston
Managing Partner

cc: Vice President Al Gore
Undersecretary Richard Rominger



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